East Asia and the Trials of Neo-Liberalism

Edited by

Kevin Hewison and Richard Robison

Murdoch

UNIVERSITY

EAST ASIA AND THE TRIALS OF NEO-LIBERALISM

This book examines the impact of neo-liberalism in East Asia in the years since the 1997–98 Asian Economic Crisis. It addresses the nature of neo-liberalism, the forces and institutions driving this agenda. With case studies of Indonesia, Thailand, South Korea, Malaysia, China and Vietnam, the conclusion is that domestic elites are critical to the ways in which the neo-liberal agenda is manifested, modified and rejected. It is also clear that there has been a dramatic restructuring of state and economic power. With some elements of domestic elites having been decimated, others reinventing themselves, important new elements have been constituted.

This book was previously published as a special issue of the *Journal of Development Studies*.

Kevin Hewison is Director of the Carolina Asia Center at the University of North Carolina, Chapel Hill, USA.

Richard Robison is Professor of Political Economy at the Institute of Social Studies in The Hague, The Netherlands.

EAST ASIA AND THE TRIALS OF NEO-LIBERALISM

Edited by
Kevin Hewison and Richard Robison

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published 2006 by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

Simultaneously published in the USA and Canada
by Routledge
270 Madison Ave, New York, NY 10016

Routledge is an imprint of the Taylor & Francis Group

Transferred to Digital Printing 2009

© 2006 Taylor & Francis

Typeset in Times New Roman by KnowledgeWorks Global Limited,
Southampton, UK

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

British Library Cataloguing in Publication Data
A catalogue record for this book is available
from the British Library

Library of Congress Cataloguing in Publication Data
A catalogue record for this book has been requested

ISBN10: 0-415-36013-7 (hbk)
ISBN10: 0-415-56842-0 (pbk)
ISBN13: 978-0-415-36013-5 (hbk)
ISBN13: 978-0-415-56842-5 (pbk)

CONTENTS

CHAPTERS

	Introduction: East Asia and the Trials of Neo-liberalism	**Richard Robison and Kevin Hewison**	vii
1	Neo-liberalism and East Asia: Resisting the Washington Consensus	**Mark Beeson and Iyanatul Islam**	1
2	Neo-liberal Reforms and Illiberal Consolidations: The Indonesian Paradox	**Vedi R. Hadiz and Richard Robison**	24
3	A Legitimate Paradox: Neo-liberal Reform and the Return of the State in Korea	**David Hundt**	46
4	The Politics of State Sector Reforms in Vietnam: Contested Agendas and Uncertain Trajectories	**Martin Painter**	65
5	Malaysia: New Reforms, Old Continuities, Tense Ambiguities	**William Case**	88
6	Neo-liberalism and Domestic Capital: The Political Outcomes of the Economic Crisis in Thailand	**Kevin Hewison**	114
7	China's Engagement with Neo-liberalism: Path Dependency, Geography and Party Self-Reinvention	**Leong H. Liew**	135
	Index		157

Introduction: East Asia and the Trials of Neo-liberalism

RICHARD ROBISON and KEVIN HEWISON

I. INTRODUCTION

In this collection we seek to understand further the outcomes of the Asian economic crisis that began in 1997 and the extent to which it opened the door for neo-liberal policy agendas to transform the economic and political regimes of East and Southeast Asia. At another level, we will be exploring ways in which the extraordinary events of the Asian economic crisis have provided a window into larger questions about economic and political change and the influence of global markets upon such processes. It is clear that the region has seen a dramatic restructuring of state and economic power in recent decades. In many states, this restructuring was accelerated by the economic crisis. In the new circumstances, elements of domestic elites have been decimated, some are reinventing themselves, while important new elements are also being constituted. What is critical is how these shifts have reinforced, subverted or hijacked neo-liberal agendas for policy and institutional change. In other states, where crisis-driven neo-liberal agendas were not so intense (for example, China and Vietnam), we must explain the ways in which neo-liberalism has still had considerable impacts and market reforms are pursued.

In each of the cases examined in this collection, it is clear that the initial hopes of neo-liberal reformers have been frustrated or at least substantially revised. Many neo-liberals had hoped that the Asian crisis would be a precursor for a vast convergence towards liberal market economics. In each of the countries examined, it is evident that neither the economic crisis itself, direct intervention by the International Monetary Fund (in Thailand,

Richard Robison, Institute of Social Studies, PO Box 29776, 2502 LT The Hague, The Netherlands. E-mail: robison@iss.nl; Kevin Hewison, Director, Carolina Asia Center, CB#7582, West House, University of North Carolina at Chapel Hill, Chapel Hill, NC 27599-7582, USA. E-mail: khewison@unc.edu.

Funding that supported some of the research reported here came from a University Grants Commission fund administered by the City University of Hong Kong as a Direct Allocation Grant (7100258) and was also supported by a 2002–04 Australian Research Council Discovery Grant, 'Changing East Asia's Economic and Political Regimes: What Kind of Markets? What Kind of Politics?'

Indonesia and South Korea) nor continued policy pressure has resulted in an unequivocal triumph of markets over prevailing domestic political and economic regimes. This is not to say that there have not been changes or even reform in each of these societies. Rather, it is to stress the fact that reform is not a technical matter driven by the lessons of economic disaster or the promises of efficiency. We examine the way in which neo-liberal reform is vigorously contested in a process mediated by domestic states and elites. It remains critical for us to understand the constellations of domestic forces engaged in these struggles if we are to comprehend the nature of economic change. The articles collected here focus, therefore, on the way prevailing power relations influence the dynamics of change in the region as a whole, and for the specific cases of China, Vietnam, South Korea, Thailand, Malaysia and Indonesia.

For over three decades, the economies of the region had combined rapid economic growth and deepening integration with the global economy with various developmental paths that transgressed the market prescriptions of Western, liberal economic models. Thus, the crisis was an opportunity for neo-liberal policies to be strengthened and many commentators confidently expected a convergence of development models, where economies in which the state had a significant role and where prevailing predatory or corrupt political arrangements would be replaced with free markets, private sector capitalism, enhanced transparency and 'good governance'. In other words, it was expected that state-led capitalism and 'crony capitalism' would be challenged, reformed and replaced. But as indicated above, this has not been the case. What has happened since 1997?

In this collection, the authors assess the ways in which neo-liberal policy has been accepted, adapted and challenged. These case studies provide an insight into a wide range of political experiences and policy collisions. Thailand, Indonesia and Malaysia are three variants of systems where the fusion of public power and private interest provided an umbrella under which economic activity was organised and resources allocated. South Korea was the archetypical developmental state focused on large industrial corporations and state managed industry policies. China and Vietnam represented two communist economies negotiating the path to market capitalism. In their different ways, political leaders in these economies had challenged neo-liberal orthodoxy in the three decades until the 1997 crisis, variously claiming to have developed other viable models of change and development.[1]

As will be seen in these articles, the initial impact of the neo-liberal agenda has been substantial, especially in South Korea, Thailand and Indonesia, where the International Monetary Fund (IMF) played a central role in defining and implementing reform policies. Insulated to a large degree from the immediate impact of the crisis, the progress of neo-liberal market reform

has been more distant and structured in China and Vietnam. In no instance has the post-crisis neo-liberal challenge gone unhindered or uncontested. In some cases, the response has seen market reform stymied or turned to the benefit of entrenched elites. But these are not mere instances of vested interests digging in to resist neo-liberal reforms, despite the costs. Rather, the sort of markets and democracies that emerged post-crisis continued to accommodate many of the old elites and power relations and, in some cases, to enhance their evolving positions. These events raise questions about the assumed relationships between markets, governance, democracy and civil society and about the way different political and economic institutions are forged and transformed. Most notably, these events bring into sharp contrast those views that see change as simply problems of institution and capacity building with those approaches where change is understood as a process of social conflict [*see Rodan, Robison and Hewison, 2001*].

In this short article, we wish to place the articles that follow in context by addressing some issues of background and definition. We begin with a brief outline of neo-liberalism and then turn to an account of its rise to dominance.

II. THE ASCENDANCY OF NEO-LIBERALISM

Neo-liberalism has become a catch-all term accommodating a range of market-oriented ideas and interests that have evolved over the past three decades. Never the less the neo-liberal project has some core elements that can be identified in a range of economic, social and related political policies that emphasise the market, fiscal discipline, trade, investment and financial liberalisation, deregulation, decentralisation, privatisation and a reduced role for the state [*World Bank, 1983; Williamson, 1990; Wade, 1992*]. These elements have generally remained constant both as policy guides and the ideological core of neo-liberalism. In practice, a range of policies have been added, emphasised or modified in particular circumstances. These have included: a limited welfare state, decentralised labour relations and a weakening of unions, and fiscal discipline taking precedence over social policies [*see Portes, 1997: 238*].

It is important to acknowledge that neo-liberalism may be considered in two complexly intertwined areas. First, it is defined by neo-classical economic ideas about the nature of markets and economic growth. Second, it may also be characterised and distinguished in terms of its political ideas and agendas. A little history can exemplify these two elements.

In the three decades following the end of World War II, the orthodoxy in both the economics profession and in policy-making was strongly Keynesian. However, in the late 1970s, as the West struggled to overcome the impacts of oil price rises, high unemployment, economic stagnation and

inflation, dissenting policy and ideological voices were more clearly heard. The result of this was most clearly seen in the tenures of Margaret Thatcher in the UK and Ronald Reagan in the US. Less high profile, but equally significant, were the neo-liberal transformations seen in New Zealand and Australia, initiated, ironically, by Labour governments. The ascendancy of neo-classical economics was not just in university economics departments, but also in the treasuries and finance ministries of a number of Western governments. The new market fundamentalism also attracted growing, albeit highly selective, support from global financial and manufacturing interests eager to break open the hitherto restricted but growing markets of Asia. In a range of countries, both developed and developing, the new agenda had major impacts. It brought a rejection of state-centred Keynesian demand policies, offering instead a vision of efficiency delivered by self-regulating markets, where prices could respond to the laws of equilibrium and ensure the correct allocation of resources. In a world constructed ideally of voluntary transactions between rational, self-interested individuals, it brought also a backlash against welfare states, high taxes, subsidies and protection, and a belief that small government and responsible monetary and fiscal policies were enough to provide the conditions in which growth could take place.[2]

Providing this new economic orthodoxy with a political and policy edge may be seen as the real neo-liberal 'revolution'. Here, it has embodied two contradictory threads. At one level, it rested upon classical liberal assumptions that markets would flourish when a naturally progressive and self-reliant civil society was liberated from the constraints of state power that was inevitably repressive and predatory. But neo-liberals were challenged by the question of how such repressive states might be transformed or dismantled, and by whom. They were also confronted by the fact that, when authoritarian regimes did collapse, it was not always progressive, liberal middle classes that came to the fore, but violent and predatory systems dominated by political cartels and gangsters, as in some parts of Eastern Europe.

This contradiction provided a dilemma that was to produce ambivalence in neo-liberal ranks towards democratic political change. Liberalism typically has political and economic dimensions. Political liberalism is focused on individuals and their choices. These foci raise issues of justice, representation, democracy and equity. Economic liberalism, also about individuals and choice, focuses on the market. The logical outcome of the latter is market capitalism. However, this system of economic structuration does not necessarily provide a seamless connection to the political goals of liberals. This is why economic liberals praise Singapore for its commitment to open trade and economic transparency, while political liberals denigrate the regime's authoritarianism [*see Rodan, 2004*].

In addressing this dilemma between political and economic liberalism, neo-liberals had assumed that market capitalism would arise spontaneously from the progressive lessons of economic crises and shocks or from the impulsive choices of rational, self-interested individuals. Increasingly, however, neo-liberal political economists came to the conclusion not only that politics mattered but that change had to be enforced by 'change teams' of technocrats or technopols operating within the state but able to rise above vested interest [*Williamson, 1994; Grindle, 1991*].[3] Second, that technocrats had to be insulated from the demands of predatory and rent-seeking interests, creating a state emptied of politics. Because markets had to be protected from politics, neo-liberalism contained the elements of what Jayasuriya [*2000*] has called 'authoritarian liberalism'.

In contrast to classical liberalism, neo-liberalism was deeply suspicious of democracy because it potentially opened the door to rent-seeking coalitions and the tyranny of a majority of distributional coalitions [*Dorn, 1993*]. Many neo-liberals came down on the side of liberalism without representative democracy enforced by what was, in effect, a techno-dictatorship of experts able to protect markets from politics. The contradictions between political and economic liberalism in contemporary neo-liberalism are seen in the way that politically illiberal Singapore gets high marks from neo-liberals. The involvement of Western governments, too, confronted this contradiction. Increasingly realizing that dictators no longer served the strategic interests of the West, the concern for democracy promotion increased. Yet, the threats of democracy also loomed in the shape of chaos and instability or of governments falling into the hands of reactionary or radical forces. Hence, the Western interest in democracy tended to focus on what might be called 'low intensity democracy', where such possibilities were minimised [*Gills, 2000; Smith, 2000*].

Neo-liberalism also had important impacts in development theory and practice. As the Keynesian-inspired development efforts of the 1960s and 1970s floundered, a range of critics and opponents emerged. One avenue of opposition was within the structuralist and dependency schools, where the problem was laid at the feet of inherently exploitative relationships between the industrial centre and the underdeveloped periphery of the world economy. While this approach proved politically attractive in many developing economies, it was to be the ideas of those who railed against 'market distorting' state interventions that were to eventually establish a new economic and development policy orthodoxy [*for example, Bauer, 1971*].[4]

These ideas translated into concrete policies about economic growth and transformation in developing economies that soon became dominant in the international development and monetary agencies like the World Bank and IMF. Led initially by figures such as Harry Johnson and Peter Bauer, it was

argued that poverty resulted from the actions of governments that encouraged inefficiency, incompetence and rent-seeking within systems of monopolies, where protection and subsidies were embedded in industry policies. The answer was an end to policies reliant on aid and where governments attempted to construct domestic industrial capacity within import substitution strategies. These critics argued that physical capital was less important to successful development than technology and, above all, the right psychological capacities, values attitudes and beliefs [*see Toye, 1987: 47–70*].

Bringing a new emphasis upon economic deregulation and the primacy of macroeconomic fundamentals in monetary and fiscal policies, neo-classical economics displaced prevailing ideas about development that focused on investment in physical capital, foreign aid and import substitution industrialisation. The values of outward-looking trade regimes extolled over the waste of inward looking trade and industry policies [*Krueger, 1982*]. These ideas were quickly taken up within the World Bank [*1983*]. By the early 1990s, the three principles of economic deregulation, privatisation and fiscal austerity became the pillars of the so-called Washington Consensus that bound the policies of the Bank, the IMF and the government in the US [*Williamson, 1990*].

Neo-liberal policies now permeated and gained ascendancy in the domestic policy arrangements of many developing economies as debt, fiscal and broad economic crises made existing policies untenable. The structural adjustment conditionalities imposed by the IMF and the demands of the World Bank throughout the 1980s were specifically directed towards deregulating financial and trade regimes, imposing monetary stability and fiscal austerity. Of course, the new orthodoxy was not universally embraced and, indeed, the success of state-led development in East Asia was seen as a challenge to the neo-liberal approach, involving an intriguing debate in which the World Bank attempted to explain away such success as 'market-conforming' and where its critics emphasised how such success had been achieved in contradiction of basic neo-liberal principles [*World Bank, 1993; Amsden, 1989; Wade, 1990*].

It was in this context that the crisis and the collapse of a number of East and Southeast Asian economies in 1997 was seen by many within the neo-liberal camp as cutting the ground from under their opponents and signifying the superiority of markets over states.[5] Yet, after more than two decades of deregulation, privatisation and fiscal austerity, as Beeson and Islam later argue in their article, critics point to the continuing failure of neo-liberal policies to eliminate poverty and to the greater inequality and concentrations of wealth produced under their policy regimes. For their part, those neo-liberals who generally fall into the camp of what Stiglitz [*2002*] describes as 'market fundamentalists' have tended to suggest that, on the whole, their policies have worked and that the problem is one of incomplete reform or

incorrect sequencing of reform measures [*Dollar and Kraay, 1999, 2000*]. The point of this collection is not to debate the real or potential superiority of market agendas in terms of efficiency but to consider their inroads into the economies of Asia after the crisis. This is, we argue, essentially a process of conflict. It is to the nature of this conflict and to the politics of change that we now turn.

III. THE POLITICAL CONTRADICTIONS OF NEO-LIBERALISM

For neo-liberal ideologues, market-oriented policy and practice would be driven by the very costs of intervention and the benefits of embracing the natural efficiencies of the market. Where vested interests provided resistance, the shocks of inevitable crises would blow them away. Bad times would produce good policy. Hence, when the Asian crisis struck, neo-liberals were confident that convergence would be the result.

But the neo-liberal juggernaut is more than just a set of ideas, or laws, propounded by true believers within the World Bank, the IMF and other development agencies and in the universities. Markets are not the workings of the 'invisible hand' but are 'politically constructed', with governments setting rules and allocating access [*Zysman, 1994; Higgott and Nesadurai, 2002: 29*]. And this process does not involve government alone. As we have suggested, change involves contending coalitions of state and social power with interests to promote and protect. These compete to shape the rules and set the terms and limits of access. No less than any other agenda for organising power, neo-liberalism itself may be politically understood in terms of those interests and coalitions assembled behind its agenda [*Chaudhry, 1997; Robison and Rosser, 1998*].

These include the new technocrats themselves, who are promised autonomy from the realm of 'politics' in their task of protecting the market from vested interest. Neo-liberal ideology also became entangled with the more basic agendas of corporate capital and the more wealthy interests in societies who were favoured by low tax policies, assaults on welfare programmes and environmental lobbies, the push against 'rigidity' in labour markets and the general move to dismantle the public sphere [*Zingales and McCormack, 2003*]. Within the developing economies, neo-liberal policies were supported to the extent these interests saw them as opening the doors to investment and providing secure guarantees and exits in case of trouble. The incorporation of business within the neo-liberal umbrella was a source of strength, but also one of potential conflict for the neo-liberal camp.[6]

In particular, the structural power of corporate capital, especially in the finance sector, was a force for market reform. Banks, funds managers and currency dealers were attracted to a world of free markets where highly

mobile forms of investment meant that capital might enter and leave economies quickly [*Winters, 2000*]. For economies increasingly dependent upon these forms of investment, the prospect of panic and flight offered a powerful structural pressure for reform. As observed by then IMF Chief, Michel Camdessus [*1997*], countries could not enjoy the benefits of global capital markets without observing its disciplines. On the other hand, the involvement of business in the neo-liberal push for markets was a two-edged sword. As the crisis revealed, business had been more than willing to place its investment and loans in countries where projects and corporate partners relied heavily on the political influence of governments over commercial calculations and where public and private governance was loose. From the 1980s it had been this huge flow of private global finance, often short-term bank loans, that had fuelled economic systems later condemned as cronyism by the IMF and others.

Various domestic political alliances were also assembled behind the neo-liberal agenda. For example, following the Asian crisis, as the article on Indonesia by Hadiz and Robison indicates, it was elements in the growing professional and managerial middle classes that welcomed IMF intervention, sometimes seeing it as a mechanism for eliminating the highly corrupt, repressive and arbitrary political regime. These were, however, often less attracted to wider agendas for market reform and liberal transitions. Generally, as the articles collected here show, neo-liberal reform was a highly contentious political agenda for which there was often only a limited domestic constituency. Its progress was often driven by like-minded technocrats in these local states whose power was little more than the leverage they gained as a mediator between domestic governments, international financial institutions, international investors and financiers, and donor governments in times of stress and crisis.

As indicated in the articles collected here, when neo-liberal ideas and policies were transplanted into the cauldron of post-crisis politics in East and Southeast Asia, there were markedly different and, sometimes, quite paradoxical outcomes.

IV. THE ASIAN CRISIS AND NEO-LIBERALISM

The economic success of East Asia through the last three decades of the twentieth century was spectacular, seen in its booming growth rates, burgeoning exports and income gains in the region. But, East Asia did not 'fit' the neo-liberal development model. This was clearly indicated in the World Bank's *East Asian Miracle* report [*1993*]. By then it had become difficult for the Bank to ignore the reality that Asian industrialisation had often been accompanied by often significant state interventions. No longer

able to deny the state's role in the remarkable economic success stories in Asia, this role was assessed and justified as 'market facilitating'. Interestingly, the serious consideration given to the role of the state by the *Miracle* report had followed Japanese government pressure for the Bank to reconsider its 'one-size-fits-all' free market prescriptions [see *Awanohara, 1993: 79; Wade, 1996*]. One of the conclusions drawn by the Bank was that, in most of the economies studied, the government had indeed intervened to foster development, including the development of specific industries. At least some of these interventions were seen to have violated the dictum of establishing a neutral incentives regime for private investment [*World Bank, 1993: 5–6*].[7]

As noted above, the Asian economic crisis provided an opportunity for neo-liberal policies to be strengthened and many commentators expected a convergence of development models. It was expected that Asian 'crony capitalism' would be reformed and replaced. Six years after the onset of the crisis, it is appropriate to examine the consequences for the societies of the region. To anticipate the conclusions drawn in the articles, it is apparent that the crisis did not lead to a grand convergence driven by the inexorable advance of neo-liberal ideas, practices and institutions. The neo-liberal reform agenda, promoted by international financial institutions and their supporters, offered a stark alternative to the 'Asian capitalism' that was seen to have been one of the root causes of the crisis. Today, there is little doubt that various elements of market capitalism *have* been more deeply embedded. However, the processes have also been *highly contested*, leading to contradictory, ambiguous and sometimes surprising outcomes. The diversity of national experiences collected in this collection is illustrative of this contestation.

This set of articles examines the process by which the neo-liberal agenda has been realised, shaped and contested through social, economic and political conflicts. More specifically it examines the arenas of contestation including markets, regulatory arrangements, governance, political and institutional accountability, transparency, administrative decentralisation, property rights and political and economic liberalisation. In examining these arenas, the organising theme is the ways in which configurations of social, political and economic power both mediate and are reshaped in the context of addressing the neo-liberal agenda.

Indonesia, as Hadiz and Robison show, was clearly the country most economically damaged and politically unravelled by the crisis and its aftermath. With its corporate sector crushed by debt, its banks paralysed and the government in collapse, the way was clear for the IMF to impose a comprehensive reform agenda. Yet, five years on, progress remains fitful and partial as attempts to privatise the huge public sector, restructure private debt, recapitalise the banks and improve public and private sector governance flag.

These outcomes are the result, the authors argue, of the inability of neo-liberals to turn this structural advantage into political ascendancy. At the same time, it was the ability of established conglomerates and politico-business families to reorganise their power within the new political arenas of parties, elections and parliaments, notably at the provincial and local levels that was to prove decisive.

Hundt examines South Korea, also deeply impacted by the Asian economic crisis. Long seen as an exemplar of the statist development approach, with Japan and Taiwan, the crisis challenged the long-standing and supportive relationship between state and business. Interestingly, compared with other countries in this special issue, the South Korean government has moved furthest down the neo-liberal path. A paradox in this process is that the neo-liberal agenda has permitted the South Korean state to re-legitimise itself. While the state had gradually abandoned some of its planning functions in the 1980s, the crisis was an opportunity for it to re-emerge as the mediator between domestic and global forces. The state proved itself to be capable of facilitating the process of industrial and financial restructuring and assumed a new guise. With both domestic and international support, it has been able to rein in the *chaebols*, breaking the statist mould of the past three decades. While adopting the neo-liberal agenda as a pragmatic response to a perceived threat to the long-term viability of the developmental state, the state's goal of furthering the 'national interest' through development and through regulatory intervention remained unchanged as it moved from a 'plan-rational' state to a 'market-rational' one.

In examining Thailand, Hewison indicates that the prolonged economic downturn saw a rejection of neo-liberal reforms implemented after the crisis. The threat to the economic power of the domestic capitalist class posed by the transformation of government operations and of the ways that business was conducted demanded by neo-liberal reform was opposed. Domestic capital's economic survival required that it seize the state and regain control of economic policy making. This was achieved through the Thai Rak Thai Party's electoral victory. The government of Thaksin Shinawatra has allowed domestic capital to enhance its political power and protect its economic interests. Interestingly, in order to save domestic capital, the government has had to embark on a major re-negotiation of its social contract with other classes that may deliver considerable welfare benefits in order to maintain the government of the rich.

As Case argues, the problem was somewhat different for Malaysia. It was able to weather the economic crisis reasonably well when compared with neighbouring economies, helped by the fact that its companies had less exposure to overseas borrowings. Equally significant, Malaysia's economic structure was a comparatively well-ordered mix of globalised export-oriented

enclaves and a far more protected local market based in non-tradeables. Accordingly, Malaysia was able to ignore IMF prescriptions, turning instead to capital controls and corporate bail outs. Although capital controls stabilised the economy and allowed the ruling coalition and its leader, Dr Mahathir, to maintain political ascendancy, they failed to re-energise foreign investment. This led to policy fluctuations mediated by political concerns, including a scaling back of controls and the pursuit of market reforms bolstered with notions of 'good governance'. The transfer of power to Abdullah Badawi indicates an embrace of 'intermediate' market reforms and political patronage that deliver increased investment and growth, together with a renewed political stability.

In the case of China, dynamic growth has seen an apparent embrace of markets that is rapidly transforming the Chinese economy and society. However, this transformation is mediated by the state, especially through development state-like industrial policies. Liew suggests that an important factor that permits this is China's vast size. This allows it to exploit economies of scale in production so that, to a degree, it is insulated from foreign trade retaliation against its industry policies. But size also weakens central authority as sub-national governments, whose cooperation is vital for governing a country the size of China, modify policies in implementation. The result is that market reforms are often contested at the local level. Local political realities also see the Chinese Communist Party (CCP) intervene to ensure that market generated income inequalities do not compromise its historic mission of national integration. At the same time, Liew points out that market reform has caused the CCP to reinvent itself. The CCP maintains its authoritarian control of politics, while attempting to shape the growth of new elites from the emerging entrepreneurial and middle classes, and incorporate them within the Party. The CCP's objective is to preserve its monopoly over political power.

In Vietnam, Painter shows that the Communist Party also continues to maintain its control over on-going political debates regarding the direction of economic reform. The Government is pursuing a state-led developmental strategy that makes selective use of the techniques and instruments of neo-liberalism (supported by foreign technical and financial assistance) to achieve its aims. The donor community and international financial institutions hope that domestic and global economic forces will be the key to political liberalisation. However, it seems that economic growth has permitted the state to reinvent itself as a managerial state that maintains control over the economy. At the same time, the Party controls the political impact of any potentially destabilising forces unleashed by domestic reform. In particular, it must attend to the demands of emerging business groups and interests, many of them originating in and still connected with the bureaucracy and Party. In

those circumstances, the Party sustains its political rule. Painter notes tensions over growing corruption and social inequality, but the impact of these are mitigated by the unlikely alliance between the Party and the World Bank, IMF and other champions of neo-liberalism.

In their article, Beeson and Islam focus on the Washington Consensus, how the Asian economic crisis marked its 'death', and the rise of an augmented Washington Consensus. In analysing these currents, they indicate how policy-making is a highly contested process. While the new approach is meant to appear more politically and socially responsive, Beeson and Islam argue that even if acceptable to local elites, this reinvented version of global neo-liberalism is flawed. They indicate these flaws in a number of areas, including poor macroeconomic performance (especially in parts of eastern Europe and Latin America), limited poverty impacts, rising global inequality and theoretical shortcomings. Beeson and Islam then turn to a normative account of a path beyond neo-liberalism; a kind of middle path that is both economically sound while allowing scope for 'institutional eclecticism', including regional mechanisms for addressing economic crises and challenges. In essence, they call for a pro-poor, employment-friendly development agenda in East and Southeast Asia.

Of course, the challenge for such an agenda is, as seen in the country articles, that domestic interests mediate all such policies, and the outcomes of technically sound proposals may be diverted in struggles over economic and political power, mediated by domestic states and elites. All reform efforts depend on the outcomes of such struggles. It remains critical for us to comprehend the structure of domestic power if we are to comprehend the nature of economic change.

NOTES

1. These growing claims were made in the context of what came to be known as the Asian Values debate [*Mahbubani, 1993; Mahathir and Ishihara, 1995; see also Robison, 1996; Rodan, 1996*].
2. For a general discussion of the literature on the neo-classical revolution in economics and development, see Toye [*1987*].
3. The term 'technopol' was used by Williamson [*1994*] to denote a strata of both politicians with the power and technocrats with the skills able to impose and execute those policies that served the general welfare over vested interest.
4. As Toye [*1987*] points out, Bauer was influential far beyond development economics. His work was highly influential within Thatcher's cabinet as it struggled to overcome Britain's economic problems of the late 1970s.
5. For a detailed account of theoretical approaches to Asian development and the crisis, see Rodan, Robison and Hewison [*2001: Ch. 1*].
6. It is important to acknowledge that the forces grouped around the neo-liberal flag often have conflicting agendas in critical cases. For example, the sorts of crony and predatory business practices that were condemned after the Asian crisis and seen by neo-liberals as amongst its causes were precisely those whose rapid expansion in the 1990s was enabled by flows of

short-term funds from international banks and other forms of mobile capital. At the same time, the governments that provided the political muscle for these authoritarian and illiberal systems were often backed by US foreign policy. Indonesia is one example.

7. In the heady economic boom times of the mid-1990s, success was also seen by some to be due to non-economic factors. Some authoritarian leaders were happy to claim that the Asian economic miracle owed much to specifically Asian cultural values that emphasised: communitarianism over individualism; respect for and acceptance of authority; the longevity of ruling parties; and strong states, prominent bureaucracies and development-oriented, interventionist states [see *Chan, 1993: 21–4*].

REFERENCES

Amsden, A.H., 1989, *Asia's Next Giant: South Korea and Late Industrialization*, Oxford: Oxford University Press.

Awanohara, S., 1993, 'The Magnificent Eight', *Far Eastern Economic Review*, 22 July.

Bauer, P., 1971, *Dissent on Development*, London: Weidenfeld and Nicholson.

Chan, H.V., 1993, 'Democracy: Evolution and Implementation, an Asian Perspective', in Robert Bartley *et al.* (eds.), *Democracy and Capitalism: Asian and American Perspectives*, Singapore: Institute of Southeast Asian Studies.

Chaudhry, K., 1997, *The Price of Wealth: Economies and Institutions in the Middle East*, Ithaca: Cornell University Press.

Dollar, D., and A. Kraay, 1999, *Trade, Growth and Poverty*, World Bank Policy Research Working Paper No.2199.

Dollar, D., and A. Kraay, 2000, *Growth is Good for the Poor*, World Bank Policy Research Working Paper No.2587.

Dorn, J.A., 1993, 'Economic Liberty and Democracy in East Asia', *Orbis*, Vol.37, No.4.

Gills, B., 2000, 'American Power, Neo-liberal Economic Globalisation and "Low Intensity Democracy": An unstable trinity', in Michael Cox, G. John Ikenberry and Takashi Inoguchi (eds.), *American Democracy Promotion*, Oxford: Oxford University Press.

Grindle, M.S., 1991, 'The New Political Economy: Positive Economics and Negative Politics', in Gerald M. Meier (ed.), *Politics and Policy-making in Developing Countries*, San Francisco, International Centre for Economic Growth.

Higgott, R.A., and H.E.S. Nesadurai, 2002, 'Rethinking the Southeast Asian Development Model: Bringing Ethical and Governance Questions In', *ASEAN Economic Bulletin*, Vol.19, No.1.

Jayasuriya, K., 2000, 'Authoritarian Liberalism, Governance and the Emergence of the Regulatory State in Post-crisis East Asia', in Richard Robison, *et al* (eds.), *Politics and Markets in the Wake of the Asian Crisis*, London, Routledge.

Mahathir, M. and S. Ishihara, 1995, *The Voice of Asia: Two Leaders Discuss the Coming Century*, Tokyo, Kodansha International.

Mahbubani, K., 1993, 'The Dangers of Decadence', *Foreign Affairs*, Vol.72, No.4.

Portes, A., 1997, 'Neoliberalism and the Sociology of Development: Emerging Trends and Unanticipated Facts', *Population and Development Review*, Vol.23, No.2.

Robison, R., 1996, 'The Politics of Asian Values', *The Pacific Review*, Vol.9, No.3.

Robison, R. and A. Rosser, 1998, 'Contesting Reform: Indonesia's New Order and the IMF', *World Development*, Vol.26, No.8.

Rodan, G., 1996, 'The Internationalisation of Ideological Conflict: Asia's New Significance', *Pacific Review*, Vol.9, No.3.

Rodan, G., 2004, *Transparency and Authoritarian Rule in Southeast Asia*, London: RoutledgeCurzon.

Rodan, G., Robison, R., and K. Hewison, 2001, 'Theorising South-East Asia's Boom, Bust, and Recovery', in Garry Rodan, Kevin Hewison and Richard Robison (eds.), *The Political Economy of South-East Asia. Conflicts, Crises, and Change*, Melbourne: Oxford University Press.

Smith, S., 2000. 'US Democracy Promotion. Critical Questions', in M. Cox, G.K. Ikenberry and T. Inoguchi (eds.), *American Democracy Promotion*, Oxford: Oxford University Press.

Stiglitz, J., 2002, *Globalization and its Discontents*, London: Allen Lane.

Toye, J., 1987, *Dilemmas of Development*, Oxford: Blackwell.

Wade, R., 1990. *Governing the Market: Economic Theory and the Role of the Government in East Asian Industrialization*, Princeton: Princeton University Press.

Wade, R., 1992, 'East Asia's Economic Success: Conflicting Paradigms, Partial Insights, Shaky Evidence', *World Politics*, Vol.44, Jan.

Wade, R., 1996, 'Japan, the World Bank, and the Art of Paradigm Maintenance', *New Left Review*, No.217.

Williamson, J., 1990. 'What Washington Means by Policy Reform', in J. Williamson (ed.), *Latin American Adjustment: How Much has Changed?* Washington, International Institute for International Economics.

Williamson, J., 1994. 'In Search of a Manual for Technopols', in J. Williamson (ed.), *The Political Economy of Policy Reform*, Washington DC Institute for International Economics.

World Bank, 1983, *World Development Report*, New York: Oxford University Press.

World Bank, 1993, *The East Asian Miracle: Economic Growth and Public Policy*, New York: Oxford University Press.

Zingales, L., and R. McCormack, 2003, 'A Choice Between the Rich and the Market', *Financial Times*, 3 March.

Zysman, J., 1994, 'How Institutions Create Historically Rooted Trajectories of Power', *Industrial and Corporate Change*, Vol.3, No.1.

Neo-liberalism and East Asia: Resisting the Washington Consensus

MARK BEESON and IYANATUL ISLAM

I. INTRODUCTION

Current debates over the future direction of the reform agenda in post-crisis East Asia have to be set in the broader context of the global debate about the role of ideas and ideology in shaping economic policy-making. Particular ideas gain primacy at one stage but may fade at another juncture, especially at times of crisis [*Blyth 2002*]. The core argument of this article is that the contest of ideas in economic policy-making can evolve independently of their intellectual merit and empirical credibility. Political interests shape and mediate the process within which policy debates unfold. In the case of post-crisis East Asia, the notion that the political economies of the region need to be fundamentally reformed to re-

Mark Beeson, Senior Lecturer, University of Queensland. E-mail: M.Beeson@uq.edu.au; Professor Iyanatul Islam, Department of International Business and Asian Studies, Griffith University, Nathan, Queensland 4111, Australia. E-mail: I.Islam@griffith.edu.au.
The authors wish to acknowledge the very useful comments from anonymous referees and the financial support from the Australian Research Council for 2002–04 Discovery Grant, 'Changing East Asia's Economic and Political Regimes: What Kind of Markets? What Kind of Polities?'

ignite the 'economic miracle' of the pre-crisis era does not stem from a politically neutral, dispassionate and intellectually rigorous analysis of what went wrong in the recession-inducing 1997 financial crisis that engulfed the region. On the contrary, it represents an attempt to reinvent orthodoxy in the domain of economic ideas and ideology by a global policy community that is profoundly influenced by the US, the key international financial institutions (IFIs) over which it exerts such authority and financial sector interests associated with 'Wall Street' [*Beeson, 2003: 305–26; Woods, 2003: 92–114*].

This proposition is developed in a number of ways. First, the article delineates the conservative economic and political agenda of what is widely known as 'neo-liberalism'. Neo-liberalism's influential advocates in the IFIs and elsewhere preach the primacy of the market economy in engendering and sustaining economic prosperity. In propagating such a view, neo-liberal ideas pose a direct challenge to the values and ethos of the sort of 'regulated capitalism' that held sway in the industrialised countries of the OECD for at least two decades after World War II. The dominance of conservative political forces towards the end of the 1970s in the United States and the United Kingdom undoubtedly played a role in the intellectual ascendency of neo-liberalism [*Cockett, 1994*].

The 1980s and 1990s cemented the rise of neo-liberalism even as a professional consensus appeared to emerge that markets alone could not explain rapid East Asian economic growth in the pre-crisis era and that institutional variables played an important, and perhaps even a decisive, role. As Chomsky [*1993*] argues, the end of the Cold War unleashed the hegemonic impulse of the United States, while the onset of the long economic boom in the 1990s under the Clinton administration lent a degree of legitimacy to a global project of 'exporting' neo-liberal ideas to the rest of the world. The Bretton Woods institutions – represented by the Washington-based World Bank and the IMF – became the principal conduit for the transmission of neo-liberal ideas to the developing countries. Williamson [*1994*] became famous for celebrating this proselytising role of the Bank and the IMF. He suggested that these institutions, in conjunction with the US Treasury, represented the 'Washington consensus' on what constituted 'good' economic policies. The Washington Consensus eventually became a global policy mantra. The centrality of the neo-liberal project was reinforced by both the authoritative position of the IFIs themselves [*Barnett and Finnemore, 1999: 699–732*] and by the fact that economic conservatism was endorsed by powerful financial markets and the ratings agencies that influenced their decisions [*Sinclair, 2001: 441–52*]. Yet, the legitimacy of the Washington Consensus is now being questioned as a whole range of actors – from dissident figures like Stiglitz and Soros, and governments in the

developing world, to civil society organisations across the 'developed' world – contest the dominant paradigm pushed by the IFIs [*Bird, 2001: 33–51*].

Several factors and events have combined to force a re-thinking of the original tenets of neo-liberalism. These include the perceived mishandling of the East Asian crisis by the Bretton Woods institutions; the termination of the long economic boom of the 1990s in the United States; and a series of corporate scandals that has tarnished the image of American capitalism and dented the potency of the US-led global project to propagate neo-liberalism across the world.[1] The tragedy of 'fast-tracking' capitalism in Eastern Europe and the ex-Soviet Union, the failure of the neo-liberal experiment in Latin America and the highly circumspect nature of the evidence on global growth, inequality and poverty have all turned out to be influential in restraining the rise of neo-liberalism.[2] What we are witnessing is the reinvention of global neo-liberalism under the guise of an 'augmented Washington consensus'.

This article counsels caution in embracing this modified version of global neo-liberalism – even if domestic political forces in East Asia turn out to be receptive to the adoption of such ideas.[3] We argue that elements of the pre-crisis East Asian development strategy still have contemporary relevance, and that new – more assertive – forms of regional cooperation that have emerged in the wake of the 1997 crisis deserve greater attention. The more fundamental challenge, however, will be to create an enabling global environment that actually supports, rather than actively tries to undermine, national policy initiatives in post-crisis East Asia.

II. THE EVOLUTION OF NEO-LIBERALISM

Advocates of neo-liberalism argue that a market economy, especially when free of government 'intervention', is the critical prerequisite for engendering and sustaining economic prosperity – a proposition that is supposedly valid across both time and space. The rather doctrinaire and all-encompassing approach of some neo-liberals has led other – fairly mainstream – commentators, such as Stiglitz [*2002*] and Soros [*1998*], to use the term 'market fundamentalism' as a synonym for neo-liberalism. Neo-liberals espouse a conservative political agenda in which the political leadership should attenuate the activism of civil society and allow technocrats the discretion, freedom and scope to pursue the market-oriented economic agenda. This policy agenda stems from a world-view that sees political and economic processes as being inherently at risk from rent-seeking lobbyists, keen on acquiring special privileges and protection from the government, and thus 'distorting' optimal outcomes [*Buchanan and Tullock, 1962*]. Consequently, neo-liberals display an aversion to significant government intervention in a market economy. They adhere to an analytical framework

in which government activism is either a reflection of the innate predatory instincts of the state or the basis for creating opportunities for rent-seeking interests to emerge that ultimately 'capture' the policy-making process to suit their partisan ends.[4]

For all the intellectual dominance that neo-liberal ideas have achieved over the last two or three decades, it is important to emphasise that there is and was nothing inevitable about this. On the contrary, neo-liberalism marks a significant departure from the ideas and ideology that guided the international order that emerged in the wake of World War II. The structures of liberal governance created primarily under US auspices in the immediate aftermath of World War II provided an overarching geopolitical and regulatory framework within which capitalism flourished. Crucially, however, as Ruggie [*1982: 379–415*] famously pointed out, despite the increasingly pervasive influence and reach of the so-called Bretton Woods institutions that were established at this time, the emergent liberal order was premised on the retention of a high degree of domestic autonomy. State intervention in the market economy to attain specific economic ends (most notably full employment) was widely regarded as a legitimate political aspiration. The compromise of 'embedded liberalism' meant that individual governments retained a good deal of independence in the management of the domestic economy, something that led to very different patterns of political relationships and economic structures. The Cold War environment, which gave a compelling strategic impetus for capitalist consolidation, not only provided a conducive environment for the successful resurrection of liberal capitalism generally [*Latham, 1997*], it also facilitated the development of very different *types* of capitalism that persist to this day [*Berger and Dore, 1996; Coates, 2000*].

In the first couple of decades after World War II, the so-called 'golden age' of capitalism [*Glyn, 1990: 39–119*], Keynesian policies were the accepted orthodoxy and dominant policy paradigm. Across the capitalist world, 'interventionist' macroeconomic policy was considered a necessary part of responsible economic management. A number of factors helped undermine the pre-eminent position of Keynesian ideas and pave the way for a transition, initially to monetarism, and subsequently to a more broadly based neo-liberal agenda. First, the breakdown of the managed system of exchange rates associated with the original Bretton Woods agreements and the subsequent exponential growth of financial markets meant that domestic policy-making autonomy had been undermined. Second, a series of interconnected economic crises in the 1970s, revolving around the inflationary impact of rising oil process, a fiscal crisis of the state and rising unemployment, led many to consider the Keynesian model to be exhausted and no longer appropriate. Over time, a great deal of emphasis was placed on fighting inflation as the

core responsibility of governments, while the need to sustain full employment was no longer regarded as an explicit macroeconomic policy goal. It was argued that, once stable prices prevailed, a market economy had self-correcting properties and did not require Keynesian activism to cure recessions.

Neo-liberalism was enthusiastically and effectively promoted by an influential group of 'policy entrepreneurs' who were ultimately able to obtain the formidable political support of Margaret Thatcher in Britain and Ronald Reagan in the US [*Cockett, 1994*]. The combination of seemingly ineffective Keynesian policies and an enthusiastically supported alternative model meant that the preconditions for a fundamental paradigm shift were in place. Crucially, however, as Peter Hall has pointed out [*1993: 275–96; 1986*], it required the application of political power to overcome the institutionalised obstacles to reform that threatened to block the transition to a new ruling economic orthodoxy.

In much of East Asia, by contrast, not only is the support for a similar paradigm shift and wholesale embrace of neo-liberalism generally less evident, but potential obstacles to reform remain entrenched. As a number of observers have pointed out [*Beeson, 2002: 7–27; Hall, 1986; Zysman, 1994: 243–83*], 'history matters', because the historically specific circumstances within which policy is constructed and applied necessarily delimit what is acceptable and feasible.[5] Even if it could be demonstrated that neo-liberal policies are in some way 'better' or more appropriate than the state-led economic policies that have been the norm across much of East Asia – and, as we shall see, this is highly unlikely – such policy initiatives will not be taken up in the absence of adequate political backing. Given that much of the neo-liberal agenda directly threatens existing patterns of political and economic power across much of the region, there is no reason to suppose that neo-liberal policies will be enthusiastically embraced – especially if there are continuing doubts about the merits and possible impact of the neo-liberal paradigm. Before considering the basis of such reservations, it is important briefly to spell out how the neo-liberal model was 'exported' to the rest of the world under the guise of the Washington consensus and how this global project has undergone significant modifications.

Neo-liberalism and the Washington Consensus

The diffuse array of ideas associated with neo-liberalism was given more precise expression by John Williamson [*1994: 11–28*], who termed the expression 'Washington consensus' to describe the economic orthodoxy that prevailed in the US Treasury Department and in key IFIs like the World Bank and the IMF. Much of what Williamson described as 'the technocrats agenda'

became the familiar staples of contemporary policy-making – amongst the Anglo-American economies at least.

The original Washington consensus, which Williamson described as the 'common core of wisdom embraced by all serious economists', consists of the first 10 points outlined in Table 1. Much of this has become the widely recognised bedrock of the market-oriented reform agenda that emerged in Britain and America during the 1980s. The 'ten commandments' in Table 1 are meant to roll back the reach of the state. Thus, governments, in both rich and poor nations, are urged to practice 'macroeconomic prudence' (a euphemism for the control of inflation and for maintaining tight budgets), deregulation, privatisation and economic liberalisation (primarily through both trade and capital account liberalisation). There are, of course, references to restructuring government budgetary priorities for sustaining social spending in basic health and education, but, as Williamson [*1999*] himself concedes, this proposition is typically neglected in practice.[6]

The Washington Consensus has, in recent years, mutated into the 'augmented-Washington Consensus' (AWC), in which the original agenda has been supplemented by a concern with poverty reduction and a range of

TABLE 1
REINVENTING NEO-LIBERALISM: THE 'AUGMENTED' WASHINGTON CONSENSUS

Washington Consensus (the original ten)	Augmented Washington Consensus (original ten plus...)
1. Fiscal discipline	11. Central bank independence and inflation targeting
2. Redirection of public expenditure towards basic education, primary health care, infrastructure	12. Reform of both public sector and private sector governance
3. Tax reform	13. Flexible labour markets
4. Interest rate liberalisation	14. WTO agreements and harmonisation of national standards with international standards in business and finance, but with exceptions (most notably environment and labour)
5. Competitive exchange rate	15. Strengthening national financial systems to facilitate eventual capital account liberalisation
6. Trade liberalisation	16. Sustainable development
7. Liberalisation of FDI flows	17. Protecting the vulnerable through safety nets
8. Privatisation	18. Poverty reduction strategy (PRSP and PRSF)
9. Deregulation	19. Country ownership of policy agenda
10. Secure property rights	20. Democratic participation

Note: This is an amended version of a suggested interpretation offered by Rodrik [*2002a: 10*]. PRSP = poverty reduction strategy papers; PRSF = poverty reduction strategy framework. The left-side column of the table is based on Williamson [*1999*].

'governance' issues, outlined in points 11–20 in Table 1.[7] The pre-requisites of 'good' governance revolve around democratic reform, the promotion of civil society, institution and capacity building, transparency, a renewed commitment to poverty reduction and the creation of social safety nets. It is clear that the emphasis on the promotion of civil society in the 'augmented' version of the Washington Consensus represents a significant attempt to differentiate itself from the original neo-liberal political agenda of restraining the activism of civil society on the grounds that the latter is populated by rent-seeking lobbyists.

The initial mishandling of the East Asian crisis by the IMF, and the failure of a predicted 'V-shaped' recovery from the recessions that followed in the wake of the 1997 financial crisis, has had the effect of accelerating the consolidation of an AWC. Earlier certainties about the wisdom of financial sector reform that were a core plank of IMF-led rescue efforts in East Asia are being subjected to widespread critiques [*Jayasuriya and Rosser, 2001: 381–96*]. Yet, despite this apparent willingness to consider the circumstances within which reform occurs, there is little recognition of the politically contested nature of the economic reform process. As Higgott [*2000: 131–53*] observes, 'to the extent that the international institutions recognise that political resistance is a legitimate part of the governance equation, it is a problem to be solved. It is not seen as a *perpetual* part of the process' [*Higgott, 2000: 144, emphasis in original*].

III. REINVENTING NEO-LIBERALISM IN EAST ASIA

Despite the failure of the Washington Consensus to recognise the inherently political nature of reform, a crucial question is whether the East Asian crisis is in fact a vindication of the basic tenets of the neo-liberal reform agenda. If so, does this mean that post-crisis East Asia will have to embrace these tenets as a means of re-igniting the 'miracle' years of the pre-1997 period? This section of the article suggests that, far from vindicating the core propositions of neo-liberalism, the recent economic history of East Asia, as well as global economic events and a burgeoning dissident literature, suggest otherwise. Indeed, there is a compelling case for East Asian policy-makers to re-affirm the faith in the many institutional variants of a mixed economy model rather than a universalistic 'one-size-fits-all' recipe for policy reform, even in the current 'augmented' Washington Consensus version. Furthermore, there is a persuasive case for East Asian policy-makers collectively to put their weight behind recent calls for the reform of global economic governance and enhanced regional cooperation. These, we argue, are necessary steps for creating an environment in which the crisis-affected economies of East Asia, in common with other developing

countries, can craft their own distinctive and country-specific path to sustainable and equitable development.

Neo-liberalism in East Asia – A Critique

The consensus that was reached amongst many economists and even the World Bank [*1993*] about the causes of East Asian development and the lessons that one could draw from it broke down in the wake of the 1997 financial crisis.[8] The close relationship between the state and business that was so characteristic of much of East Asia, and the concomitant capacity to direct the course of industrial development and mobilise domestic savings that it conferred, was suddenly subject to scathing criticism. Pundits – most notably the IFIs, which on the very eve of the crisis praised the East Asian economies for their 'miraculous' achievements – now rushed to condemn them as 'failed' cases of 'crony capitalism'. What appeared to be close government–business relations that, it had been argued, facilitated a virtuous process of equitable growth now became 'corrupt' regimes that encouraged inefficient state intervention, bred structural deficiencies and brought about their own downfall. The solution – crafted through the so-called 'Letters of Intent' that were negotiated between the IMF and the crisis-affected economies of Indonesia, Thailand and Korea – essentially called for a re-imposition of 'augmented' Washington Consensus policies. In other words, the core policy proposals pertaining to macroeconomic prudence, deregulation, privatisation and liberalisation now had to be supplemented by a renewed commitment to poverty reduction and wide-ranging institutional reform that fell under the rubric of 'good governance'. Table 1 captures the essence of this 'augmented' version of the Washington Consensus. Indeed, one could argue that the attempt to reform the crisis-affected economies in East Asia simply became an experiment in reinventing neo-liberalism in the region.

It is ironic that the attempt by the advocates of the Washington Consensus to rehabilitate neo-liberalism in East Asia is occurring at a juncture when there are considerable concerns about recent global and regional economic trends: despite the major shortcomings of the neo-liberal model we detail below, East Asian alternatives have been effectively marginalised and discredited by the sustained discursive and ideological attack that has emerged from the US and the IFIs [*Hall, 2003: 71–99*]. It is ironic too that the attempt to forge a 'new' consensus on 'best-practice' norms in economic policy-making is coinciding with rising voices of dissent within the economics profession. Such dissidents question both the logic and the empirical validity of the proposition that an abstract, universalistic neo-liberal recipe of policy reform is the appropriate solution to re-ignite growth in the crisis-affected East Asian economies.

The advocates of the Washington Consensus claim that 'the *best available evidence* shows ... the current wave of globalisation, which started around 1980, has actually promoted equality and reduced poverty' [italics added] [*Dollar and Kraay, 2002: 1*]. Yet, these claims have to be juxtaposed with growing concerns about recent international and regional trends. Consider the following stylised facts.

1. Recent research shows that there has been a world-wide growth slow-down in the 1980s and 1990s *vis-à-vis* the 1960s and 1970s, despite some notable exceptions, such as China [*see Milanovic, 2002; Weisbrot et al., 2000; and Islam, 2003*].
2. Some studies maintain that growth slow-down in developing countries is closely linked to growth slow-down in the OECD, rather than a deterioration in the policy environment of the average developing country [*Easterly, 2001*].
3. When China is excluded from the estimates, the 1990s show an increase in the absolute number in poverty across the world [*UNDP, 2002: 18*].
4. An UNCTAD [*2002*] study paints a grim picture of persistent and rising poverty among the least developed countries.
5. Serious concerns have been raised about the reliability of global statistics on poverty [*see Deaton, 2002; Pogge and Reddy, 2002*].
6. Some studies maintain that global inequality has gone up in the 1980s and 1990s [*Wade, 2002a, 2002b; Milanovic, 2003*],[9] although a lot depends on the particular dimension of global inequality that is being measured [*Ghose, 2001*]. At the very least, one can infer that the evidence on trends in global inequality is contested.
7. A study based on countries (representing 80 per cent of the world's population) for which reliable data exists show an increase in inequality since the 1950s in cases [*Cornia and Court, 2001*].

Indeed, there are conspicuous cases of regions in distress that go against the prescriptions of orthodoxy. Thus:

1. Latin America represents a case of 'reforms without results'. Despite decades of reforms, poverty in Latin America today is higher than in 1980, real wages are barely equal to and inequality remains persistent and conspicuously high.[10]
2. The attempt at 'big-bang' privatisation and fast-tracking of capitalism in the transition economies of eastern Europe and the former Soviet Union have turned out to be a tragic failure. The 'transition recessions' have been longer and deeper than the Great Depression. GDP in 2000 was still

40 per cent below the 1990 level for many of these economies. Poverty and inequality have gone up sharply.[11]

It can also be demonstrated that the empirical foundation on which some basic tenets of the Washington Consensus rests – most notably trade liberalisation and macroeconomic conservatism – are quite fragile. As Rodrik [*2001*] has shown, the voluminous empirical literature on trade and growth conflate outcomes with policy variables. Trade volumes are outcomes of both trade and non-trade policies. A better approximation of trade policies is tariff and non-tariff barriers, compliance with WTO regulations and so forth. When tariffs, for example, are used in simple, cross-country regressions to 'explain' growth, no statistically significant result emerges. The association seems to be positive, with higher economic growth being correlated with greater propensity to trade. This may simply be capturing the well-known historical pattern that many countries initially grow under relatively protected domestic markets. As they get richer, they begin to liberalise their trade regime.

Recent studies that are sympathetic to the neo-liberal ideas of the Washington Consensus have also failed to identify any meaningful impact of trade (as conventionally measured in terms of trade volume as a proportion of GDP) on both growth and poverty (as measured in terms of the average income of the poorest 20 per cent of the population). For example, a cross-country econometric study by Dollar and Kraay [*2000*], which was widely cited by the pro-liberalisation camp, actually failed to demonstrate a statistically significant impact of trade performance of countries on the average income of the poor.[12] A similar finding is reported in an IMF study [*Ghura et al., 2002*]. The neo-liberal reform agenda appears impervious to such empirical realities, however.

As is well known, the role of macroeconomic prudence in engendering national economic prosperity receives pride of place in the original version of the Washington Consensus (see Table 1). Yet, the empirical evidence corroborating a link between macroeconomic conservatism (as reflected in fiscal prudence and the single-minded pursuit of low inflation), growth and poverty is tenuous. Based on the available literature and some estimates done by the authors [*Islam, 2003*], one can highlight the following stylised facts.

1. Macroeconomic conservatism implicitly focuses on 'special cases', because it is a story of the misfortunes that await countries if they engage in macroeconomic extremes.[13]
2. Moderate rates of inflation are not harmful to growth. Inflation rates need to be quite high (in the 15–40 per cent range) before they become prejudicial to growth [*Bruno and Easterly, 1995*].

3. Studies using OECD data also show that countries that aimed for very low rates of inflation (0–2 per cent) do not necessarily exhibit either lower inflation or lower unemployment than countries that did not adopt inflation targeting [*see, for example, Debelle et al., 1998*].
4. While some studies have demonstrated a statistical link between fiscal deficits and poor growth performance, others focusing on both poverty and growth have not been able to endorse the findings. More specifically, there is no statistical link between fiscal deficits and higher incidence of poverty [*Dollar and Kraay, 2000*].
5. Some studies have demonstrated that inflation has a negative impact on the living standards of the poor, but the estimated elasticities are quite low and can be easily offset by countervailing factors. For example, a 1 per cent increase in inflation leads to a 0.01 per cent decline in the average income of the poor, but a 1 per cent increase in per capita GDP leads to a 0.94 per cent increase in the average income of the poor [*Ghura et al., 2002*].
6. While growth is a key determinant of the incidence of poverty, it can be offset by rising inequality [*Ghura et al., 2002*]. Hence, what matters to poverty reduction is equitable growth rather than the single-minded pursuit of fiscal prudence or low inflation.
7. Cross-country econometric estimates are sensitive to the nature of the data (in terms of variations in time periods and sample size) raising doubts about their credibility as a source of policy advice. There is no alternative to in-depth studies of the experiences of individual countries or a specific set of countries [*Cashin et al., 2001*].

In sum, it is difficult to argue that the empirical foundation of global neoliberalism is so robust that one can confidently prescribe a 'one-size-fits-all' policy agenda for East Asia as well as other developing regions of the world. In any case, the view that the East Asian crisis was fundamentally driven by internal structural deficiencies that require large-scale reforms to rectify is highly contested. Stiglitz [*2002*] and others, such as the ADB-supported Asia Policy Forum [*ADB, 2000*], argue that the crisis-affected economies of the region were, to a significant extent, the victims of instability in unfettered short-term capital flows.

Even if post-crisis East Asia has to undertake a process of policy reform, does this mean that the 'augmented' Washington Consensus offers the best guide? Dissident economists reject this option. Rodrik [*2002a*], for example, regards the 'augmented Washington consensus' as a fundamental misconception. The flawed nature of the augmented version of the Washington Consensus stems from the fact that 'it is an impossibly broad, undifferentiated agenda of ... reform' [*Rodrik, 2002a: 1*]. It ends up describing the

desirable features of development but does not suggest a feasible way of getting there.

What about the renewed commitment to poverty and the notion that it should play a central role in national development strategies? One can hardly question the view that a renewed commitment to eradicating poverty lies at the core of engendering and sustaining development, especially for such developing East Asian economies as Indonesia and Thailand. Indeed, at a UN summit in September 2000, more than 180 countries forged a consensus that the international community should commit itself to the attainment of target reductions in both the income and non-income dimensions of poverty by 2015 (using 1990 as the base).[14] What is debatable, however, is the specific approach that the Bretton Woods institutions have taken in incorporating the idea that poverty reduction should play a central role in national development strategies in East Asia and elsewhere. These institutions are expected to play a leading role in the propagation of so-called 'PRSPs', or 'poverty reduction strategy papers', that developing countries must enunciate and implement through a nationally owned, participatory process in order to gain access to development assistance. East Asian countries have not been immune to this new approach, with Indonesia releasing its 'interim' PRSP in October 2002 and thus joining the ranks of about 70 countries that have done so.

Critics of the PRSP maintain that the process will simply be dragged into a bureaucratic quagmire [*Easterly, 2002*]. Preliminary evaluations by the IMF and International Labour Organization (ILO) of the 'first generation' PRSPs do not inspire much confidence. ILO [*2002b*] maintains that in many countries employment concerns were not highlighted. The IMF evaluation [*Ames et al., 2002*] notes that, in many countries, 'the PRSP process produced extensive lists of goals and ... even longer lists of actions in support of those goals'. The authors of the review note that 'trade-offs and prioritisations are clearly needed if the strategy is to be realistic'. At the same time, the authors concede that 'the PRSP countries often find it difficult to set priorities in the face of uncertainties regarding their overall growth strategy, the cost of various actions and their own budget constraints'. They also highlight concerns of developing country governments that the 'procedures and reporting requirements associated with PRSP-lending operations remain overly demanding'. Developing country representatives, both from the government and civil society, also 'pointed to continuing tensions between the principle of country ownership and the tendency of donors to promote issues of importance to themselves'. The reviewers conclude that 'more information on aid commitments and more predictable aid flows would help low-income countries plan and implement their own strategies' [*Ames et al., 2002: 3–4*].

IV. RESISTING NEO-LIBERALISM IN EAST ASIA

Capitalism in East Asia is generally organised very differently from the apolitical idealisations found in much of the IFI's prescriptive literature. Moreover, the specific patterns of business–government connections, corporate organisation and broader social relations that are now routinely identified in the increasingly sophisticated and extensive comparative literature on East Asian political economies[15] draw attention not just to their distinctiveness, but also to their durability. This is not surprising. The contingent institutional structures associated with political rule and business organisation in East Asia not only provide a continuing template for social relationships, they are themselves an expression of earlier social and political accommodations [*Beeson, 2002*]. Put differently, policy-making processes in particular and the determination of economic structures and relationships more generally have what Hall [*1986: 5*] describes as an inherent 'institutional logic' that effectively delimits the range of possible outcomes. In such circumstances, even if it could be determined that a policy paradigm was outdated, dysfunctional or otherwise inappropriate, it is entirely possible that institutional inertia will inhibit change [*Goldstein and Keohane, 1993: 3–30*].

The most important exemplar of this possibility is, of course, Japan. It is now commonplace to draw attention to the seeming exhaustion of the developmental state model in Japan, and to note the way in which former sources of competitive advantage have now become liabilities [*Katz, 1998*]. The Japanese case does illustrate the way that institutionalised patterns of relationships can become self-serving and actually contribute to the very problems they are meant to address. And yet there are a number of important caveats that ought to be added to this picture of decline and institutional ossification. First, the Japanese developmental state has achieved its purpose in ways that other nations of the region have not, and, for many states in the region, an approximation of the development state may still offer the best way of overcoming the handicaps of 'late' development. Second, even if Japanese planners appear bereft of the ideas and authority necessary to turn around Japan's lacklustre economic performance, institutional inertia makes any radical change unlikely. Third, and perhaps most germane to this discussion, it is far from clear that the intellectual debate about the possible merits of neo-liberal reform has been won in Japan. Not only are there still doubts about just how exhausted the Japanese model actually is [*Fingleton, 2002*], but there has been a widespread sense of *Schadenfreude* amongst the Japanese about the troubles that are currently gripping the American economy [*Ibison, 2002*]. The significance of such sentiments should not be underestimated, especially at the elite level, for as the controversy over the

World Bank's landmark analysis of the 'Asian miracle' reminds us, the contest to create the conventional wisdom is a deeply political process and dependent on the resources that can be deployed.[16] Significantly, in the aftermath of the recent financial crisis when its leadership aspirations were abruptly undercut by the combined actions of the US and the IMF, Japan has finally begun to show signs of assuming the sort of regional leadership role its economic position dictates [*Bowles, 2002: 244–70*].

Other countries, of course, do not have Japan's economic weight or potential political leverage. Nevertheless, there are important examples of widespread resistance to neo-liberal reform. The most consistent criticism has come from former Malaysian Prime Minister Mahathir Mohammad.[17] Admittedly, he is widely vilified in 'the West' and is tainted by his personal association with a repressive, authoritarian form of government. Despite these important reservations, one has to concede that he makes a number of points that have significant support across the region. Central to Mahathir's critique of 'the West' generally and the IFIs in particular is his claim that the IFIs 'favour the big and the financially rich corporations and discriminate against the small and poor businesses from developing countries. So the dice is loaded against the poor developing countries' [*Mahathir, 2003*]. Mahathir believes that only the collective actions of developing countries are likely to provide a bulwark against neo-liberal hegemony. Although his government may have had powerful incentives to resist a neo-liberal reform agenda that implicitly threatens the interlocking patterns of political and economic power underpinning his administration [*Beeson, 2000: 335–51*], it is also important to recognise that his views have a sympathetic audience in the region.

Beyond Neo-liberalism in East Asia

Tinkering with an 'augmented Washington consensus' in East Asia and elsewhere is unlikely to yield a novel and pragmatic alternative to neo-liberalism. What, then, is the way forward? One should start from the premise that the broad principles of mainstream economics, rather than the particular prescriptions of neo-liberalism, are relevant in guiding economic development. This means that one cannot retreat to the state activism of the past or uncritically embrace its modern equivalent, the street protests underpinning the 'anti-globalisation' movement that erupted in Seattle and elsewhere.[18] This means, too, that one cannot condone East Asian-style governance of the past entailing attenuation of human rights and the corrupt nature of 'crony capitalism'. Whether or not non-democratic regimes and so-called close government–business relations unleashed a virtuous cycle of growth will always remain debatable. What is clear is that, in a new international environment in which there is a low degree of tolerance for both corruption

and abuse of human rights, the policy-makers of East Asia in the post-crisis era will have to make a fresh start.

In making a fresh start, policy-makers in East Asia should espouse the broad principles of mainstream economics that allow scope for institutional eclecticism. In other words, it is necessary to move away from the formulaic principles that drove the Washington Consensus and rediscover the virtues of a mixed economy model with its many institutional variants.[19] This means that both states and markets have critical roles to play in economic development. The appropriate combination of the two varies over time and across countries. Hence, it is necessary to devise context-specific approaches to deal with problems of poverty, inequality and sustainable development.

East Asian policy-makers should also recognise that there is likely to be a trade-off between the imperatives of globalisation and domestic democratic politics. When they gear their entire national development strategy to the preferences and sentiments of global markets – often subsumed under the rubric of attracting and sustaining investor confidence – they may be forced to shun the voices and concerns of domestic constituencies and the strategic directions that a nation ought to take. This inadvertently undermines democratic governance and may well cause the tensions between domestic stakeholders and foreign constituencies to become unmanageable. Under such circumstances, crafting a credible national development strategy becomes rather difficult.[20]

Despite the commendable attempts that the IFIs have made in recent years to improve transparency and accountability in their operations and decisions, a growing number of influential voices are now arguing that, to remain at the forefront of development policy and practice, institutions of global economic governance, most notably the IFIs, must confront their impaired legitimacy.[21] The thesis of impaired legitimacy starts from the premise that the prevailing ownership structure of the IFIs, in which rich countries are disproportionately favoured by the current voting formula, creates powerful incentives for the G-7 nations, and the US in particular, to pursue their commercial and national interests, often at the expense of the interests of developing countries. This pursuit of self-interest is usually cloaked in the language of the Washington Consensus, suggesting that there is a universally agreed set of ideas on what constitutes a national development agenda. One solution, some argue, lies in changing the voting formula so that the developing countries have more influence over the IFIs. Yet another is to disband the durable, but entirely undemocratic, practice whereby the head of the World Bank is chosen by the US and the head of IMF is chosen by the north western European nations.

Others have argued that that there should be clear separation between policy analyses, research and the operational activities of the IFIs by ensuring that the former are carried out by independent agencies. Currently, the

research departments are located within these institutions, creating the risk that some of the politically sensitive policy-oriented research could be used to justify the operational imperatives of the World Bank and IMF.[22] Critics maintain that it is through the lending operations and 'country assistance strategies' that the largest shareholders of the two institutions seek to exercise their strategic influence. While it is easy to dismiss the above proposals as too contentious and hence unlikely to be ever seriously considered by the international community, what is clear is the need to move away from an artificial consensus on global policy issues. It is necessary to nourish the spirit of eclecticism and intellectual diversity anchored in the idea of country-specific approaches to development in the post-crisis era.

The articles in this collection indicate that the countries of the region have responded to the neo-liberal agenda in a variety of ways, reminding us of the continuing capacity states have to mediate external influences [*Weiss, 2003*]. What is most striking in the aftermath of the East Asian economic crisis, however, is the increasing desire to create *regional* mechanisms capable of responding to long-run structural changes in the international economy and the IFI-sponsored political interventions that accompany them. Whatever else the crisis revealed, it demonstrated the region's collective vulnerability to externally generated economic forces and to extra-regional political actors that sought to manage them. In such circumstances, it is revealing that there have been a series of major regional initiatives to develop monetary mechanisms like the proposed Asian Monetary Fund (AMF) to insulate the region from damaging economic forces, and political initiatives like 'ASEAN+3' to provide a counter-weight to the overweening influence of the US and the IFIs [*Webber, 2001: 339–72*]. The idea was first mooted with the onset of the 1997 financial crisis in East Asia and took the form of a proposed Asian Monetary Fund (AMF) to supplement the financing facilities available through the IMF. The proposal was shot down by the IMF, European Union and the United States on the ground that it would duplicate the activities of the IMF and that a regional body along the lines of the AMF would lack the political will to ask member countries to undertake unpopular adjustment measures to cope with macroeconomic crises. Recent developments suggest that the idea of a regional financial architecture to supplement conventional multilateral arrangements is emerging with renewed vigour [*see Rana, 2002*].

V. CONCLUDING REMARKS

The East Asian developmental experience reveals a striking paradox: despite clear evidence which suggests that many of the development strategies employed in the region have been highly successful, the ascendancy of neo-

liberal ideas and the dominance of the IFI's that promote them means that such policies are being actively discouraged. Even if it is argued that state-led development may have served its purpose in places like Japan, there is clearly scope for government assistance and planning in much of Southeast Asia [*Jomo 2001: 461–508*], to say nothing of the rest of the developing world. Yet if pragmatic alternatives to neo-liberalism that facilitate a pro-poor, employment-friendly development agenda at the national level are to be developed it will require a major paradigm shift in the dominant development discourse. Not only will there need to be a greater acceptance of alternative, possibly non-market dominated development strategies for poorer countries, but the policies of the rich countries of the industrialised core will need to change, too.

Development outside the OECD nations will require an environment in which developing countries in East Asia and elsewhere can harness an increased inflow of external resources to meet national development goals through both aid and access to the domestic markets of the rich nations. Access to such markets depends not just on dismantling trade barriers by both rich and poor countries, but also on the ability of the developed world to create the necessary demand for developing country exports. This means fostering and sustaining buoyant domestic markets in the industrialised countries – a task that surely belongs to the domain of macroeconomic policy. After all, a key lesson is that the growth slow-down in the developing world in the 1980s and 1990s is linked to the growth slow-down in the OECD [*Easterly, 2001*]. Trade flows would have to be complemented by appropriate aid flows. Current calculations suggest that annual flows of development assistance will have to double from present annual flows of US$40–56 billion if the world community wishes to make a credible commitment to financing the Millennium Development Goals UNDP [*2002: 31*]. At the same time, renewed efforts will have to be made in ensuring that available aid is allocated to priority areas that directly affect growth, employment creation, and poverty. The rich nations of the world have to make a commitment to 'development-friendly' policies. Currently, the rich economies that matter in development cooperation – such as the United States – compare very unfavourably with the generosity of such small European nations as Denmark and the Netherlands.[23]

Yet this alternative agenda is unlikely to be easily realised. Such outcomes would require extensive international cooperation and the existence of states with the capacity to effectively implement more expansionary and 'development-friendly' policies. Not only are the IFIs unlikely to support such initiatives, but the distinctive and central role played by the region's interventionist, developmental states is actively discouraged by neo-liberal reforms. In such circumstances, if the states of East Asia are to create an

environment in which continuing economic development is feasible, they may have to pursue nationally or regionally-based strategies that either reject or deflect some of the key elements of the neo-liberal reform package. The danger, of course, is that such a project will simply be a mechanism for propping up or legitimating incompetent or corrupt administrations. The challenge for the region, in short, is to revitalise some of the former strengths of the development state without succumbing to cronyism and inefficiency, while simultaneously warding off inappropriate reformist pressures from the IFIs. This is likely to be the defining policy challenge for East Asian political elites in the twenty-first century.

NOTES

1. For the causes and implications of the spectacular collapse of such iconic US companies as Enron and Global Crossing, see Philips [*2002*].
2. The tragedy of the transition economies in Eastern Europe and the case of 'reforms without results' in Latin America are highlighted at a later stage in the article, as is the global evidence on growth, inequality and poverty.
3. Although much of East Asia has been highly resistant to neo-liberal ideas, the long-term structural change brought about by the region's integration into the wider international economy appears to be steadily changing domestic social relations and creating coalitions that support further economic liberalisation. See Jayasuriya [*2001: 26–53*].
4. For prominent examples of this analytical tradition, see Lal [*1983*], Bauer [*1972, 1984*] and Krueger [*1974, 1990*].
5. Even if there were to be a paradigm shift in East Asia and a more enthusiastic embrace of neo-liberal ideas, there are major potential constraints on the ability of many governments in the region to implement such policies, as they lack the governmental capacities and the rich infrastructure of private sector organisations that are fundamental to neo-liberal governance in Western Europe. See Beeson [*2001: 481–502*].
6. Williamson [*1999*] has lamented the fact that both reputable economists and populist commentators have abused his conception of the term 'Washington consensus'. He argues that he never intended it to become a synonym for 'neo-liberalism' or 'market fundamentalism'. He developed the term within the specific context of Latin America as the region struggled to come to terms with the debt crisis of the 1980s. We defend the use of Washington Consensus as a good approximation of the neo-liberal consensus in the developing world. It draws on the rationale offered by Kanbur [*1999*] that, despite the subtleties embedded in the original intent of Williamson, critics of the Washington Consensus judged what they saw in practice. Kanbur maintains that practitioners from the Bretton Woods institutions used the notion of the Consensus to adopt an aggressive negotiating stance with (recalcitrant) developing countries.
7. Rodrik [*2001*] coined the term the 'augmented Washington consensus', while Stiglitz [*1998*] talked about a 'post-Washington consensus'. He seems to have moved away from that idea in subsequent work.
8. See Islam and Chowdhury [*2000, Chapter 1*] for a discussion of the emergence of the 'consensus' on the nature and causes of rapid growth in pre-crisis East Asia.
9. Dowrick and Akmal [*2003*] suggest no discernible change in inequality, after correcting for 'biases' in current measurement of world distribution of income.
10. See IDB [*1997*] and Equidad [*2000*]. See also Lustig and Arias [*2000*]. Updates are offered in ILO [*2002a*].
11. See World Bank [*2002*], Stiglitz [*1999*] and Kolodko [*1999*]. Cohen [*2000*] provides a fascinating account of how the US media under the Clinton administration ignored – or at

least downplayed – the social costs of the project of fast-tracking capitalism in eastern Europe.

12. Dollar and Kraay [*2000*]. Milanovic [*2002*] notes that the Dollar and Kraay findings were enthusiastically embraced by such influential publications as the *Economist* and the *Financial Times*, which made no attempt to convey the tenuous nature of the empirical evidence.
13. Cross-country data show that the majority of developing countries are not fiscally profligate nor are they prone to high inflation. See Islam [*2003*].
14. OECD [*1996*] is the precursor to the Millennium Development Goals.
15. For an example, see Whitley [*1999*]; Hall and Soskice [*2001*].
16. The World Bank's [*1993*] seminal report was the subject of significant intellectual contestation between the US and Japan – the latter determined to have the role and possible advantages of the developmental state approach it pioneered acknowledged in a way that IFI publications had not previously done. See Wade [*1996: 3–36*].
17. Thailand under Thaksin is also a good example of an East Asian-style resistance to the neo-liberal agenda. Hewison discusses the Thai experience in some detail in this volume.
18. The street protests that spearheaded the current 'anti-globalisation movement' first emerged in spectacular fashion in December 1999 and scuttled the WTO meeting in Seattle. Amartya Sen [*2001*] makes the important point that, by raising 'global doubts', the current anti-globalisation movement may be forcing the international community to seek 'global solutions'. It is thus counter-productive to dismiss the anti-globalisation movement as the product of a ruffian fringe that the world's intellectual sages and political leaders ought to stand up against.
19. See Kuttner [*1997*] for an elegant statement for the case of the eclectic mixed economy model.
20. Rodrik [*2002b*] makes this argument forcefully.
21. See, for example, UNDP [*2002*]. See also Stiglitz [*2002*]. Williamson [*2000*] offers a comprehensive guide to reform proposals pertaining to the IMF, while Pincus and Winters [*2002*] examine the 're-invention of the World Bank'. Kapur [*2002*] offers a critique of G-7 proposals to reform the 'multilateral development banks' (MDBs).
22. Deaton [*2002*], Kanbur [*2002*] and Wade [*2002b*] make these suggestions.
23. An innovative ranking of 21 rich nations was carried out by the Washington-based Center for Global Development (CGD) and the well-known journal *Foreign Policy* (FP) in terms of their commitment to development in areas of aid disbursement, trade policy, environmental policy, foreign investment in developing countries and support for peace-keeping operations in conflict-ridden areas of the world. The United States and Japan languish at the bottom of this league table [*see CGD/FP, 2003*].

REFERENCES

ADB, 1997, *Emerging Asia: Changes and Challenges*, Manila: Asian Development Bank.

ADB, 2000, *Asia Policy Forum*, Manila: Asian Development Bank.

Ames, B., Bhatt, G., and M. Plant, 2002, 'Taking Stock of Poverty Reduction Efforts', *Finance and Development*, Vol.39, No.2.

Barnett, M.N. and M. Finnemore, 1999, 'The Politics, Power, and Pathologies of International Organizations', *International Organization*, Vol.53, No 4.

Bauer, P., 1972, *Dissent on Development*, London: Weidenfield and Nicholson.

Bauer, P., 1984, *Reality and Rhetoric: Studies in the Economics of Development*, London: Weidenfield and Nicholson.

Beeson, M., 2000, 'Mahathir and the Markets: Globalisation and the Pursuit of Economic Autonomy in Malaysia', *Pacific Affairs*, Vol.73, No.3.

Beeson, M., 2001, 'Globalisation, Governance, and the Political-economy of Public Policy Reform in East Asia', *Governance: An International Journal of Policy, Administration and Institutions*, Vol.14, No.4.

Beeson, M., 2002, 'Theorising Institutional Change in East Asia', in Beeson, M. (ed.), *Reconfiguring East Asia: Regional Institutions and Organisations After the Crisis*, London: RoutledgeCurzon Press.

Beeson, M. 2003, 'East Asia, the International Financial Institutions and Regional Regulatory Reform: A Review of the Issues', *Journal of the Asia Pacific Economy*.

Bello, W., 1998, 'East Asia: On the Eve of the Great Transformation?', *Review of International Political Economy*, Vol .5, No.3.

Berger, S., and R. Dore, (eds.), 1996, *National Diversity and Global Capitalism*, Ithaca: Cornell University Press.

Bird, G., 2001, 'What Happened to the Washington Consensus?', *World Economics*, 2 Vol.4.

Block, F., 1990, *Post-Industrial Possibilities: A Critique of Economic Discourse*, Berkeley: University of California Press.

Blyth, M., 2002, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge: Cambridge University Press.

Bowles, P., 2002, 'Asia's Post-crisis Regionalism: Bringing the State Back in, Keeping the [United] States Out', *Review of International Political Economy*, Vol.9, No.2.

Bruno, M and W. Easterly, 1995, 'Inflation Crises and Long-Run Growth', *Journal of Monetary Economics*, Vol.41.

Buchanan, J.M. and G. Tullock, 1962, *The Calculus of Consent*, Ann Arbor: University of Michigan Press.

Camdessus, M., 1997, 'Globalization and Asia: The Challenges for Regional Integration and the Implications for Hong Kong', Conference Address, 7 March, Hong Kong.

Cashin, P., *et al.*, 2001, 'Macroeconomic Policies and Poverty Reduction: Stylised Facts and an Overview of Research', IMF Working Paper, WP/01/135, Sept.

Centre for Global Policy Development and Foreign Policy, 2003, 'Ranking the Rich', *Foreign Policy*, May/June.

Chang, H-J., 2002, 'Kicking Away the Ladder: An Unofficial History of Capitalism, Especially in Britain and the United States', *Challenge*, Vol.45, No.5.

Chomsky, N., 1993, 'The Clinton Vision', *Z Magazine*, Dec.

Coates, D., 2000, *Models of Capitalism*, Oxford: Polity Press.

Cockett, R., 1994, *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution 1931– 1983*, New York: Harper Collins.

Cohen, S., 2000, 'American Journalism and Russia's Tragedy', *The Nation*, 2 Oct.

Cornia, G.V., and J. Court, 2001, 'Inequality, Growth and Poverty in the Era of Liberalisation and Globalisation', *Policy Brief*, No.4, Helsinki: World Institute for Development Economics Research, Finland.

Deaton, A., 2002, 'Is World Poverty Falling?', *Finance and Development*, Vol.39, No.2.

Debelle, G., *et al.*, 1998, 'Inflation Targeting as a Framework for Monetary Policy', *Economic Issues*, No.5.

Dollar, D., and A. Kraay, 2000, 'Growth is Good for the Poor', *Policy Research Working Paper*, No.2587, World Bank.

Dowrick, S., and M. Akmal, 2003, 'Explaining Contradictory Trends in Global Income Inequality: A Tale of Two Biases', *mimeo*, Faculty of Economics and Commerce, Australian National University. Presented at a Workshop on 'Benefits and Costs of Globalisation in the Asia-Pacific', Griffith University, Brisbane, 13–14 Feb.

Easterly, W., 2001, 'The Lost Decades: Developing Countries Stagnation in spite of Policy Reform 1980 1983', Feb., *mimeo*, World Bank: Washington DC.

Easterly, W., 2002, 'The Cartel of Good Intentions: Bureaucracy vs Markets in Foreign Aid', Washington, DC: Center for Global Development and Institute for International Economics, *mimeo*, May.

Equidad, 2000, 'Poverty and Inequality: Recent Trends', *InterAmerican Development Bank*, March.

Fingleton, E., 2002, 'Is Japan Faking it?', *Financial Review*, 22 Nov.

Fischer, F., 1990, *Technocracy and the Politics of Expertise*, California: Sage.
Ghose, A., 2001, 'Global Economic Inequality and Trade', Employment Paper No.12, ILO, Geneva.
Ghura, D., Leite, C., and C. Tsangaridies, 2002, 'Is Growth Enough? Macroeconomic Policy and Poverty Reduction', *IMF Working Paper*, WP/02/118, July.
Glyn, A., 1990, 'The Rise and Fall of the Golden Age', in S. A. Marglin, and J. B. Schor (eds.), *The Golden Age of Capitalism: Reinterpreting the Postwar Experience*, Oxford: Clarendon Press.
Goldstein, J., and R. Keohane, 1993, 'Ideas and Foreign policy: An Analytical Framework', in J. Goldstein and R. Keohane (eds.), *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*, Ithaca: Cornell University Press.
Hall, P., 1986, *Governing the Economy: The Politics of State Intervention in Britain and France*, New York: Oxford University Press.
Hall, P., 1993, 'Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain', *Comparative Politics*, Vol.25, No.3.
Hall, P., and D. Soskice (eds.), 2001, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press.
Hall, R.B., 2003, 'The Discursive Demolition of the Asian Development Model', *International Studies Quarterly*, Vol.47.
Higgott, R., 2000, 'Contested Globalization: The Changing Context and Normative Challenges', *Review of International Studies*, Vol.26.
Ibison, D., 2002, 'Japanese Delight as Scandals Rock the "American model"', *Financial Times*, 15 Aug.
ILO, 2002a, *Globalisation and Decent Work in the Americas: Report of the Director General*, 15th American Regional Meeting, Lima, Dec.
ILO, 2002b, 'Poverty Reduction Strategy Papers PRSPs: An Assessment of the ILO Experience', *mimeo*, Nov., Geneva.
InterAmerican Development Bank, 1997, *A Decade of Structural Reforms: No Pain, No Gain?* Part Two, Washington DC.
Islam, I., and A., Chowdhury, 2000, *The Political Economy of East Asia: Post-Crisis Debates*, Melbourne and Oxford: Oxford University Press.
Islam, I., 2003, 'Avoiding the Stabilisation Trap: Macroeconomic Policy for Growth, Employment and Poverty Reduction', April, Employment Strategy Department, Geneva: ILO.
Jayasuriya, K., 2001, 'Southeast Asia's Embedded Mercantilism in Crisis: International Strategies and Domestic Coalitions', in A. Tan and J. Boutin (eds.), *Non-Traditional Security Issues in Southeast Asia*, Singapore: Select Publishing.
Jayasuriya, K. and A. Rosser, 2001, 'Economic Orthodoxy and the East Asian Crisis', *Third World Quarterly*, Vol.22, No.3.
Jomo, K.S., 2001, 'Rethinking the Role of Government Policy in Southeast Asia', in J.E. Stiglitz, and S. Yusuf, (eds), *Rethinking the East Asia Miracle*, Washington: World Bank.
Kanbur, R., 1999, 'The Strange Case of the Washington Consensus', *mimeo*, Cornell University.
Kanbur, R., 2002, 'IFIs and IPGs: Operational Implications for the World Bank', *mimeo*, Cornell University, June, paper prepared for the G24 Technical Group Meeting, Beirut, 1–2 March.
Kapur, D., 2002, 'Do as I say, Not as I do', *Working Paper* No.16, Oct., Washington DC: Center for Global Development.
Katz, R., 1998, Japan, *The System That Soured: The Rise and fall of the Japanese Economic Miracle*, Armonk: M.E. Sharpe.
Kolodko, G.W., 1999, 'Ten Years of Post-Socialist Transition: Lessons for Policy Reform', *World Bank Policy Research Working Paper*, No.2095, April, Washington DC: World Bank.
Krueger, A., 1974, 'The Political Economy of the Rent-Seeking Society', *American Economic Review*, Vol.64, No.3.
Krueger, A., 1990, 'Government Failures in Development', *Journal of Economic Perspectives*, Vol.3, No.4.
Kuttner, R., 1997, *Everything for Sale: The Virtues and Limits of Markets*, New York: Alfred A. Knopf.

Lal, D., 1983, *The Poverty of Development Economics*, Hobart Paperback, No.16, London: Institute of Economic Affairs.

Latham, R., 1997, *The Liberal Moment: Modernity, Security, and the Making of Postwar International Order*, New York: Columbia University Press.

Lustig, N., and O. Arias, 2000, 'Poverty and Inequality Trends in Latin America and the Caribbean', March, *Finance and Development*.

Mahathir Bin Mohamad, 2003, Speech to the 11th Annual Asia Pacific Parliamentary Forum, 13 Jan., Kuala Lumpur.

Milanovic, B., 2002, 'The Two Faces of Globalisation: Against Globalisation as We Know It', Washington, DC: World Bank, *mimeo*, April.

Milanovic, B., 2003, 'Worlds Apart: Global Inequality 1950–2000', *mimeo*, World Bank, presented at a Workshop on 'The Benefits and Costs of Globalisation in the Asia-Pacific', Griffith University, Brisbane, 13–14 Feb.

OECD, 1996, *Shaping the 21st Century: The Contribution of Development Cooperation*, DAC, Paris: OECD.

Pauly, L.W., 1997, *Who Elected the Bankers? Surveillance and Control in the World Economy*, Ithaca: Cornell University Press.

Pincus, J.R., and J. Winters (eds.), 2002, *Re-inventing the World Bank*, Ithaca: Cornell University Press.

Philips, K., 2002, 'The Cycles of Financial Scandals', *The New York Times*, 17 July.

Pogge, T.W., and S. Reddy, 2002, 'Unknown: the Extent, Distribution and Trend of Global Income Poverty', *mimeo*, 16 Aug., Columbia University.

Rana, P.B., 2002, 'Monetary and Financial Cooperation in East Asia: The Chiang Mai Initiative and Beyond', *ERD Working Paper* No.6, Manila: ADB.

Ravenhill, J., 2002, 'A Three Bloc World? The New East Asian Regionalism', *International Relations of the Asia Pacific*, Vol.2.

Rodrik, D., 2001, 'The Global Governance of Trade as if Development Really Mattered', Background Paper, Oct., New York, UNDP.

Rodrik, D., 2002a, 'After Neoliberalism, What?', *mimeo*, June, Harvard University, paper presented at a conference on 'Alternatives to Neoliberalism', Washington DC, 23 May.

Rodrik, D., 2002b, 'Feasible Globalisations', *mimeo*, June, Harvard University.

Ruggie, J.G., 1982, 'International Regimes, Transactions and Change: Embedded Liberalism in the Post War Economic Order', *International Organisation* Vol.36, No.2.

Sen, A.K., 2001, 'Global Doubts as Global Solutions', The Alfred Deakin Lectures, delivered at Melbourne Town Hall, 15 May, available at http://www.abc.net.au/rn/deakin/stories/s296978.htm.

Sinclair, T., 2001, 'The Infrastructure of Global Governance: Quasi-regulatory Mechanisms and the New Global Finance', *Global Governance*, Vol.7, No.4.

Soros, G., 1998, *The Crisis of Global Capitalism*, New York: Public Affairs.

Stiglitz, J., 1998, 'More Instruments and Broader Goals: Moving Towards the Post-Washington Consensus, *1998 WIDER Annual Lecture*, Helsinki.

Stiglitz, J., 2002, *Globalisation and its Discontents*, New York: WW Norton.

Tabb, W. K., 1995, *The Postwar Japanese System: Cultural Economy and Economic Transformation*, New York: Oxford University Press.

UNCTAD, 2002, *The Least Developed Countries Report*, Geneva: UNCTAD.

UNDP, 2002, *Human Development Report 2002*, Oxford and New York: Oxford University Press.

Wade, R., 1996, 'Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective', *New Left Review*, Vol.217.

Wade, R.H., 2002a, 'The Rising Inequality of World Income Distribution', *Finance and Development*, Vol.38, No.4.

Wade, R., 2002b, 'Globalisation, Poverty and Income Distribution: Does the Liberal Argument Hold?' in D. Gruen, T. O'Brien, and J. Lawson (eds.), *Globalisation, Living Standards and Inequality*, Proceedings of a Conference, 27–28 May, Reserve Bank of Australia and the Australian Treasury.

Webber, D., 2001, 'Two Funerals and a Wedding? The Ups and Downs of Regionalism in East Asia and Asia-Pacific after the Asian Crisis', *The Pacific Review*, Vol.14, No.3.

Weisbrot, M., Naiman, R., and J. Kim, 2000, 'The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalisation', 26 Sept., Washington DC: Centre for Economic and Policy Research.

Weiss, L., 2003, (ed.), *States in the Global Economy: Bringing Domestic Institutions Back In*, Cambridge: Cambridge University Press.

Whitley, R., 1999, *Divergent Capitalisms: The Social Structuring and Change of Business Systems*, Oxford: Oxford University Press.

Williamson, J., 1990, 'What Washington Means by Policy Reform', in J. Williamson, (ed.), *Latin American Adjustment: How Much Has Changed?*, Washington: Institute for International Economics.

Williamson, J., 1994, 'In Search of a Manual for Technopols', in J. Williamson (ed.), *The Political Economy of Policy Reform*, Washington: Institute for International Economics.

Williamson, J., 1999, 'What Should the Bank Think About the Washington Consensus?', Paper Prepared as a background paper to the World Development Report 2000, July.

Williamson, J., 2000, 'The Role of the IMF: A Guide to the Reports', *International Economics Policy Briefs*, Working Paper No.00–5, May, Institute for International Economics.

Woods, N., 2003, 'The United States and the International Financial Institutions: Power and Influence within the World Bank and the IMF', in R. Foot, *et al.* (eds.), *US Hegemony and International Organizations*, Oxford: Oxford University Press.

World Bank, 1993, *The East Asian Miracle: Economic Growth and Public Policy*, New York and Oxford: Oxford University Press

World Bank, 1997, *World Development Report 1997: The State in a Changing World*, Oxford: Oxford University Press.

World Bank, 2002, *Transition: The First Ten Years – Analysis and Lessons from the Former Soviet Union and Eastern Europe*, Washington DC: The World Bank.

Zysman, J., 1994, 'How Institutions Create Historically Rooted Trajectories of Growth', *Industrial and Corporate Change*, Vol.3, No.1.

Neo-liberal Reforms and Illiberal Consolidations: The Indonesian Paradox

VEDI R. HADIZ and RICHARD ROBISON

I. INTRODUCTION

There are few developing economies where the influence of market-oriented technocrats and international agencies such as the World Bank has been so embedded in the policy process as in Indonesia and where relationships between the government and Western economists have been so close. This embrace began as a newly established Soeharto government found itself

Vedi R. Hadiz, Associate Professor, Department of Sociology, National University of Singapore, 11 Arts Link #03 25, Singapore 117570. E-mail: sochvr@nus.edu.sg; Professor Richard Robison, Institute of Social Studies, P.O. Box 29776, 2502 LT The Hague, The Netherlands. E-mail: robison@iss.nl.

Funding supporting some of the research reported here came from the City University of Hong Kong as a Strategic Research Grant (7001403), from a 2002-04 Australian Research Council Discovery Grant, 'Changing East Asia's Economic and Political Regimes: What Kind of Markets? What Kind of Politics?' (DP0209838), and from the Faculty of Arts and Social Sciences, National University of Singapore.

confronting a legacy of hyper-inflation, debt and infrastructure collapse in the mid-1960s. Desperate to reverse these disasters and to reactivate investment and aid from the West, the new government began to dismantle many of the old nationalist policies and to impose monetary and fiscal discipline. Western-trained economists soon headed strategic economic ministries and worked closely with US economic advisory teams, drafting new macro-economic policies, negotiating debt rescheduling arrangements with creditor nations and writing legislation that re-opened the door to foreign investment [*Thomas and Panglaykim, 1973*].

A second wave of market reform, more thoroughly influenced by neo-classical economics, followed the dramatic collapse of oil prices in 1982 and 1986. Technocrats were able to push through a series of reforms in trade, banking, finance and to eliminate many state monopolies as Indonesia's state revenues and foreign earnings came under threat. But it was after the economic crisis of 1997–98 that neo-liberal reformers seized the policy levers in the most decisive way. With its economy and its currency in crisis, its corporate giants paralysed by debt and the Soeharto regime itself unravelling, the Indonesian government was forced to agree to extensive IMF demands for reform. These included more deregulation, dismantling the state owned sector, introducing institutional reforms in banking and public management and, significantly, diluting central state authority.

However, the transformation of Indonesia into a liberal market economy was ambiguous and uncertain. Deregulation had been selective and the state continued to play a critical role in shaping the market and controlling access to it. Predatory alliances of state and business oligarchies stamped their ascendancy in the economic and political spheres. Neo-liberals attributed this problem to poor policy choices, the partial implementation of market reforms or their incorrect sequencing. More recently, the blame has been laid on poorly developed regulatory institutions, a lack of state capacity, or a civil society with inadequate social capital to support markets.[1] In contrast, we propose that the difficulties of market reform in Indonesia do not originate in technical problems of policy implementation or institutional capacity, although these exist. They are, instead, primarily questions of politics and power. The issue in question, therefore, is how a system of predatory power relations and the ascendancy of politico–business families and corporate conglomerates have survived successive waves of reform and why the crisis has not resulted in the political victory of alliances supporting the neo-liberal agenda. Thus, we make three broad propositions.

First, the reform project was continually compromised by conflicting priorities among those interests supposedly broadly supporting the central objectives of the neo-liberal agenda. Because the strategic and security

interests of the US and other Western governments required a stable and secure political regime in Indonesia, financial and political assistance continued to be delivered to a regime that was blatantly state capitalist through the 1960s and 1970s. This support continued through the 1980s and 1990s to a regime that was now increasingly predatory in its orientation. At the same time, market reform agendas collided with the interests of international corporate groups and banks that were enthusiastic lenders and investors in projects where political influence, guarantees and collusion rather than market mechanisms provided the basis for commercial success. Their willingness to provide loans and equity to Soeharto cronies in the 1980s was critical in consolidating such interests and facilitating a system of economic relationships profoundly opposed to neo-liberal agendas.

Second, while neo-liberal economists believed that progressive macro-economic reforms would, in themselves, be sufficient to transform and undermine rent-seeking interests, private oligarchies controlling the state apparatus and business proved able to hijack them to consolidate and extend their own position. They used market reforms to seize lucrative monopolies formerly vested in the system of state capitalism and its state-owned sector. Third, and following from this point, the political failure of neo-liberalism was not, as neo-liberals and rational choice political economists propose, a failure to ensure the insulation of reformist technocrats from predatory forces. It was, instead, the failure of economic crisis and political decay to generate a politically cohesive and effective coalition to drive the neo-liberal agenda and to secure its ascendancy over state power.

After an analysis of how market reform agendas were expropriated to support predatory interests in the Soeharto era, we focus on the continuing difficulties of neo-liberal reform agendas even after the economic crisis and the fall of Soeharto. Specifically, we examine two flagship cases. First, the protracted attempts to restructure Indonesia's banking and corporate system and to enforce a resolution of the huge structural debts of powerful politico–business interests. Second, the attempts to shift power to a progressive civil society through policies of political decentralisation and the countervailing efforts by entrenched political interests to reconstitute their power within parliaments and parties, nationally and locally.

It is important that this study and, we suggest, the Thai and South Korean cases in particular, also have specific lessons for the liberalisation – decentralisation – good governance discourse that dominates development policy thinking within the World Bank and most national development agencies. Emphasis on technical solutions through institutional or policy fixes, or through the construction of social capital, are a means of avoiding the complex and uncomfortable facts of power and conflict. Perhaps the central theme running through this study is to challenge this approach and to

demonstrate that institutions and policies are ultimately the product of bitter social conflicts and that different outcomes are explained in the way contending coalitions of interest and ideas, of which the neo-liberal project is one, are able to reorganise their power in changing economic and political circumstances.

II. THE STRANGE RELATIONSHIP: LIBERAL REFORM, AUTHORITARIAN RULE AND PREDATORY POLITICS, 1965–97

Coming at the height of the Cold War, the rise of Soeharto in 1966 was welcomed by Western governments. Their enthusiasm was confirmed by the appointment of Western-trained technocrats to key economic ministries and agencies and by the new regime's willingness to re-open Indonesia to foreign trade and investment. For many Western economists the new government represented nothing less than a victory of economics over politics, of rationality over patrimonialism [*Arndt, 1967; Glassburner, 1971*]. Although these Western-trained technocrats continued to see an important role for the state in both investment and planning until well into the 1970s, there quickly emerged a strong antipathy among them to trade and industry policies and a preference for free market agendas. This was not least because state power in the context of these policies had become increasingly the instruments of collusive arrangements between powerful officials and business cronies [*Sjahrir, 1997: 154*]. Nevertheless, critics, including those within the student movement and among populists in the small business sector, regarded the new regime as nothing less than a *comprador* alliance that placed Indonesia at the mercy of international corporate interests [*Arief and Sasono, 1973; Mortimer, 1973*].

But they were wrong. Soeharto used the new relationship with the West to consolidate and extend the existing system of authoritarian rule and state capitalism, rather than to drive Indonesia towards unfettered market capitalism. As foreign aid and loans boosted the state budget and foreign investment established a surge of export earnings in the oil and resources sector, Indonesia's economy began to recover from the inflation and declining production of the late Soekarno years [*Robison, 1986: 170–204*]. However, the influence technocrats had over economic policy failed to extend much beyond fiscal and monetary policy. Instead, increasing oil revenues were used to finance a revival of the same ambitious nationalist industrial projects of the Soekarno era [*Hill, 1996: 102, 103; Soehoed, 1977; Robison, 1986: 131–75*]. At the same time, neo-liberal prescriptions for rational technocratic decision-making insulated from popular pressures became a political justification for authoritarian rule and continued exclusion of popular interests in the political process [*Moertopo, 1973*].

All this appeared threatened when oil prices collapsed in the 1980s. Indonesia's technocrats were then able to force through a series of important reform packages, opening the banking sector to private entry and progressively eroding lucrative import trade monopolies, including some owned by the Soeharto family and their associates. State monopolies in key sectors of the economy, including telecommunications and TV broadcasting, power generation, banking, road building and public works, were also progressively removed [*World Bank, 1995: 40–42*]. But these reforms did not herald the long awaited transition to a world of free markets.

Although banking reforms were hailed by neo-liberal economists and policy-makers [*McLeod, 1994; Cole and Slade, 1996*], these were poorly regulated and allowed owners to use their banks as cash cows to finance their own business groups in contravention of legal lending limits [*MacIntyre, 1993; Rosser, 2002: 51–84*]. Although forced out of lucrative import monopolies by trade reforms, many conglomerates found easy refuge in domestic trade cartels and oligopolies, moving, in particular, into public infrastructure projects where they now secured lucrative opportunities in power generation, telecommunications and public infrastructure, sectors formerly the preserve of the state [*Schwarz, 1999; 128–30, 143–45; Robison and Hadiz, 1993*]. This did not signal the end of state intervention. The state remained intact but now became more instrumentally the mechanism through which monopolies were allocated to powerful private interests and their commercial success guaranteed. Political and economic oligarchy had gained ascendancy over state capitalism.

Thus, powerful Chinese business conglomerates and new politico–business families established huge commercial empires on the basis of credits from state banks, monopolies in trade and large infrastructure projects, contracts for supply, construction and distribution issued, usually without public tender, by key government ministries and agencies like the state oil company, Pertamina and the state electricity company, PLN [*Robison, 1997*]. While a burgeoning private sector had emerged, the illusion of reform masked a world where investment decisions continued to be made on the basis of political guarantees and access to rents and where predatory state–business relations determined commercial success.

Economists and policy-makers at the heart of the neo-liberal reform project recognised the problems of predatory behaviour that emerged from the deregulation process [*Soesastro, 1989*]. They attributed these in part to inappropriate sequencing of reforms. Yet, the sequencing of reforms was less a product of technical calculation than the possibilities for reform initiatives offered by existing configurations of power [*Robison, 1997: 35–36; Pincus and Ramli, 1998*]. The essential problem lay in attempting to introduce market reforms into an economy where predatory and statist interests were

hegemonic. Thus, for example, attempts by reformist technocrats to constrain borrowing by conglomerates were brushed aside while several high ranking officials lost their jobs when they protested the large scale plunder of public contracts and licenses [*Schwarz, 1999: 149–55; Robison, 1997: 54, 61*].

The paradoxical relationship between predatory capitalism and neo-liberal reform operated at another level as growing deregulation of global financial markets enabled investors and lenders to provide the flood of investment capital and bank loans to projects clearly sustained by little more than political guarantees and favours [*Winters, 1997; 2000*]. Able to make huge profits, international business had no interest in calling for fundamental reform to a system of centralised rent-seeking of which they were beneficiaries. When Western and other governments intervened in the auctions of public infrastructure contracts, it was often to ensure that their firms were not excluded in favour of foreign competitors [*Schwarz, 1999: 145*]. Even though neo-liberal economists continued to complain about the lack of economic and institutional reform, their belief that this would eventually flow from good macro-economic fundamentals meant that Soeharto remained their best bet. Thus they continued to praise Indonesia's economic performance in general well until the onset of economic crisis in 1997.

III. CRISIS AND THE UNRAVELLING OF THE SOEHARTO REGIME

Soeharto's Indonesia was to be dramatically unravelled by capital flight and panic in the wake of the Asian economic crisis of 1997–98. Heavily reliant on largely unhedged US dollar denominated borrowings from global capital markets, Indonesia's corporate moguls found themselves with little option except to default on their debts as the rupiah plunged between July 1997 and January 1998.[2] A desperate government decided to call in the IMF on 8 October 1997. But IMF intervention failed to calm the panic as many had hoped. Soeharto was left to deal with the conditions imposed by the IMF in return for its US$43 billion bailout. Between late 1997 and May 1998, he was to play a protracted and duplicitous game with the IMF in an attempt to stall agreements and circumvent the enforcement of reform programmes [*Robison and Rosser, 1998*]. Unable to control the currency or to contain inflation and corporate collapses, the political regime faced growing dissent on the part of students and other domestic opponents. Most important, it began to fracture from within as its own lieutenants deserted. In May, 1998, Soeharto was forced from office.

Between 1997 and 2000, the Indonesian government was required to sign no fewer than 16 Letters of Intent to the IMF outlining its agreement to fulfil various reform programmes [*Government of Indonesia, 1997, 1998, 1999,*

2000]. Such agreements struck at key politico–business empires at the heart of the Soeharto regime, requiring the cancellation of large industrial projects and trading cartels. Perhaps the two pivotal IMF demands were those relating to the recapitalisation of Indonesia's banks and the decentralisation of administrative authority. They most clearly implied, not only the political and economic demise of those families and their associates who had presided over the former regime, but also a deeper structural reorganisation of economic and political power.

IV. NEO-LIBERAL REFORMS AND PREDATORY ECONOMIC AND BUSINESS RELATIONS AND INTERESTS: THE ROLE OF IBRA

Many neo-liberal observers expected the enforced restructuring of debt and the recapitalisation of banks finally to destroy the now-bankrupted politico–business conglomerates, anticipating, in particular, that assets would be sold to international investors to resolve debt, transforming ownership and power [*Robison and Hadiz, 2004: 5–9*]. Indeed, in both Thailand and South Korea, the resolution of the debt crisis did result in the collapse of many entrenched corporate interests and the widespread entry of foreign buyers (Hewison, this volume; Hundt, this volume). But in Indonesia, entrenched business interests survived the harrowing struggles to expropriate their assets and foreign investors failed to enter the arena in force. The politico business oligarchy survived the tempest, not by surrendering to neo-liberal reform agendas but by reorganising their economic power within new political frameworks that retained intact many of the old state–business relations.

The economic crisis resulted in a surge in non-performing loans (NPLs) within the domestic banking sector as private business began to default on repayments. Standard and Poor's estimated these NPLs would reach around 85 per cent of total loans by the end of 1999 [*Asian Wall Street Journal (hereafter AWSJ), 21 July 1999: 1*]. Thus, one of the IMF's main objectives was the recapitalisation of this moribund banking system and the proper regulation of a sector where widespread neglect of prudential requirements had developed. A banking restructuring agency (IBRA) was established in January 1998 and given substantial powers to close and to take over banks, to seize the assets of debtors and to sell both confiscated assets and debt. Its authority extended beyond the technical problems of restoring a functional banking system to the more fundamental issue of restructuring the very patterns of ownership in the banking sector and to divest some of the most powerful corporate figures of their corporate empires.

By mid-1999, 66 private banks had been closed and a further 12 of the largest banks taken over by the state and recapitalised out of a total of 240 before the crisis [*World Bank, 1999*]. Although several well-connected

business families, including Soeharto's long-standing business associate Liem Sioe Liong and some of the Soeharto children lost their banks. IBRA's swathe through the system left most banks in the hands of their owners and provided generous injections of state capital to several banks whose prospects were dubious. As I Putu Gede Arya Suta [*2000: 4*], later Head of IBRA, was to observe, Indonesia's private banks remained primarily in the hands of existing owners and recapitalisation proved to be little less than an attempt to, '...reconstruct an obsolete and defective structure. ... instead of rigorously separating ownership of private banks from borrowers, there is an eagerness to return banks to their original owners – as long as they can raise capital to repay government loans'.

Perhaps the real significance of the recapitalisation exercise was the power it delivered to IBRA to enforce a major restructuring Indonesia's corporate interests. IBRA's potential leverage came from its newfound position as chief creditor. By 1999, the government had injected approximately US$87 billion (around 82 per cent of GDP) into recapitalising the banks and purchasing NPLs. IBRA was therefore under pressure to recoup these funds from bank owners and debtors, if necessary, by seizing and selling assets and taking recalcitrant debtors to court. By the end of 2002, however, only 20 per cent of assets pledged to IBRA were actually recouped. The government had not only been forced to carry the main burden of the recapitalisation and to warehouse corporate debt but had failed to make significant inroads into the patterns of corporate ownership or change entrenched state–business relations.

How, then, did the major corporate interests avoid expropriation and keep their assets, however devalued, largely in their hands? IBRA was always going to face difficulty dealing with bank owners who were also their main borrowers and debtors. Insolvent banks were expendable to these owners whose main interest was to hang onto their larger corporate assets. Their intentions were made clear when they diverted much of the Rp.146 trillion (around US$11 billion) in Central Bank Liquidity Funds (BLBI) injected by the government to guarantee deposits and meet emergency bank loan commitments. As the Supreme Audit Agency (BPK) and the State Comptroller of Finance and Development (BPKP) reported, almost all of these funds were immediately used for new overseas investments, currency speculation and debt servicing on other companies in the group [*Kontan Online, 8 February 1999 and 3 July 2000*]. In other words, the BLBI constituted a sudden cash injection for embattled conglomerates enabling them more effectively to prop up other elements in their business groups and to supplement assets outside the reach of Indonesian authorities.

In the meantime, the main debtors were able to stall debt negotiations with IBRA and foreign creditors. When they were finally forced to the table, it proved difficult to penetrate the opaque financial statements of companies to

discover the real value of assets. While Master Settlement and Acquisition Agreements (MSAA) were signed with the main debtors in September of 1998, it soon became clear that these were not what they seemed. For example, to cover a debt of Rp.47.7 trillion, the Salim group surrendered assets of Rp.53 trillion spread across a complex package of 105 companies, making due diligence a nightmare. Subsequent government audits valued the Salim assets at Rp.24 trillion, imposing a loss of around Rp.29 trillion on the government. The same pattern was repeated in asset agreements between the government and other big debtors [*Panji Masjarakat, 19 August 1998: 16–26; Tempo, 11 June 2000: 130*].

In dealing with this problem, the government had few resources to draw on. Perhaps the major advantage enjoyed by the conglomerates was the corruption of Indonesia's judicial institutions where leading business figures walked away from bankruptcy proceedings and criminal charges in the Commercial and Supreme courts in a series of startling acquittals [*Lindsey, 2000; Jakarta Post, 11 March 200: 1 and 13 March 2000: 4*]. In the end, so few major business figures were prosecuted that both IBRA and foreign creditors soon recognised that outstanding debt had to be resolved through negotiation.

At another level, the government's attempts to force restructuring through threat of confiscation and prosecution were softened, partly because of a fear that the urgently needed capital of Indonesia's Chinese corporate groups would remain offshore. Not only did the need to encourage a revival of investment bring pressure for concessionary deals, the growing budget deficit also increased the pressure to drop prosecutions, and compromise on debt restructuring. While negotiated settlements reportedly speeded up the process, the lack of transparency in deals struck with well-connected conglomerates, including the petrochemical giant, Chandra Asri and the industrial conglomerate, Texmaco, generated widespread criticisms. Widely seen as government bailouts, these deals and the failure to take legal action against many of the business leaders generated suspicions that old relationships between politics and business were being rekindled [*Tempo, 26 March 2000: 98, 99*].

The position of IBRA was, perhaps, most significantly damaged by the failure of foreign investors to buy the assets now in the possession of IBRA. Much store had been placed in such asset sales to break up old conglomerates, impose new regulatory regimes and raise funds for a budget under stress. Foreign investors were frightened by continuing political instability and by continuing opposition to sales from nationalist elements in parliament and by employees of companies involved. Despite successful sales of Bank Central Asia and the automobile company, Astra, only around 20 per cent of pledged assets had been sold by 2002 [*Siregar, 2001: 296; IMF, 2002: 47*]. Beyond this, most of the pledged assets remained uncertain

quantities. Indicating its suspicion of the holding companies appointed to manage unsold assets after 2004, the IMF [*2002: 45*] argued that, '... care will be needed to ensure that the holding companies do not simply become a warehouse for assets that are deemed either too politically contentious or otherwise too difficult to sell'.

Conglomerates were thus in a strong position both to further forestall debt restructuring and actually to repurchase their own assets at a cut price despite a government ban on repurchase of assets by owners who had not cleared their debts. Controversy surrounded the role of existing owners in the sale of Bank Central Asia and the auto manufacturer, Indomobil and in the restructuring of the petrochemical giant, Chandra Asri [*Tempo, 19–25 March 2002; Laksamana.net, 25 January 2002*]. Market reformers found themselves in a difficult situation. On the one hand, the IMF, the World Bank and other investors urged the government to negotiate on asset values and to accept lower recovery rates on assets [*World Bank, 2000a: 13*]. Kick starting investment rather than extracting justice was the main objective. At the same time they were clearly worried that discretionary negotiations over debt and assets sales were undermining transparent governance and transferring huge losses onto the public purse [*AWSJ, 24 May 2000: 1, 7; Jakarta Post, 16 July 2000*]. Such negotiations could not be separated from the resurrection of old faces and the rehabilitation of old power relationships.

The old politico–business families and conglomerates also benefited from the increasingly desperate position of a government intent on rekindling investment and addressing budget problems. Now liable for servicing the interest payments on the bonds it had issued to cover the huge costs of bank recapitalisation, the government placed IBRA under pressure to conclude asset transfers from the conglomerates and to sell these as quickly as possible. The choice had become one of justice or cash. This was a dilemma reinforced by the growing reality that parliamentary and electoral politics required huge financial resources. Accommodation with embattled conglomerates offered perhaps the only basis for securing such resources. In the end, the old conglomerates and politico–business families emerged from the tunnel with their business empires substantially intact, having shifted much of the burden of debt onto the state. Money politics soon emerged as the new political lifeline for the old interests and the new framework in which old state–business relations might be re-established.

V. NEO-LIBERALISM, POLITICAL REFORM AND THE REORGANISATION OF ENTRENCHED INTERESTS

As we have seen in the introduction to this issue, there is a deep ambivalence towards democracy within neo-liberal thinking. While the mainstream liberal

tradition had assumed that markets required the liberation of a self-reliant and progressive middle class from authoritarian rule, many neo-liberals, specifically public choice political economists, feared such transitions would open the doors to predatory forces, constraining *economic technocrats* in their task of protecting markets from politics [*Dorn, 1993*]. For the latter, civil society could be an obstacle to markets. In the case of Indonesia, however, neo-liberals in the World Bank and elsewhere generally welcomed the dramatic shifts towards democratic politics that followed the fall of Soeharto.

The tumultuous events that led ultimately to the re-establishment of free and open elections in 1999 and to the rise of parties and parliaments were the product of domestic political dynamics rather than any policy initiative by the IMF or the World Bank. Nevertheless, these and other agencies had for some time advocated the decentralisation of state authority as a means of breaking up centralised state power and, thus opening the door to market reforms. These agencies, together with USAID and other donor organisations specifically linked administrative decentralisation with the emergence of democracy, good governance and markets [*USAID, n.d*]. One of the central themes within the various LOI focused, therefore, on measures to ensure administrative and political decentralisation.

Indonesia was not the only country in Asia where important political changes followed the trauma of economic crisis. As Hewison (this issue) argues, the dramatic political shifts that occurred in Thailand in the same period led ultimately to a more direct and instrumental capture and dominance of the political sphere by business interests through a form of centralised electoral populism. Institutional change did not in itself shape the transition. Instead, it was the way in which powerful interests were able politically to reorganise their interests that determined how the new institutions operated. The same applied in Indonesia where the fall of Soeharto in May 1998 and the dismantling of his highly centralised authoritarian regime failed to produce a swift and unambiguous transformation towards markets or liberal modes of governance. Unlike Thailand, however, business was never able to operate so openly and directly within either the state or in the social arenas of electoral politics.

There are two ways of explaining this apparent disjuncture in the Indonesian case. In the terms of the 'democratic transitions' literature [for example, *O'Donnell and Schmitter, 1986*], it is argued that democratic transition is set in train when the right combination of elites manage to form pacts able to craft the appropriate institutional frameworks of democratic governance [*van Klinken, 1999; Budiman, 1999*]. These institutions themselves create imperatives for political behaviour. Hence, once the institutions are in place, liberal democratic ideals and practices will slowly

gain ascendance as a form of institutional imperative [*Liddle, 2001*]. The problem is, in this view, one of time. By contrast, it is suggested here that Indonesia is no longer in a transition at all. The pervasiveness of money politics – and political violence – in post-New Order politics should not be understood as the mere growing pains of a slowly maturing liberal democracy. Instead, they are more fundamentally inherent to the logic of power relations that define an illiberal form of democracy already consolidated and entrenched.

This does not mean that momentous changes have not occurred in Indonesia. The most obvious change in Indonesian politics has been the establishment of free and open elections. The parliamentary poll of June 1999 – held during the brief interregnum of the Habibie Presidency (May 1998–October 1999) – were the first meaningful ones since 1955. In 2004, Indonesians went to the polls again, and for the first time, will vote directly for their President and Vice-President, a change which has been enabled by Constitutional amendments that would have been unthinkable during the New Order. At the same time parliament and political parties have become far more significant institutions. Severely constrained during the long New Order, these have now become true vehicles and arenas of political contestation. As discussed below, another significant change is that local elites and institutions, including local parliaments, are emerging as important players in their own right – because central state authority has tended to erode since the New Order's demise. Serious and often brutal contests over power now permeate down to the local level – characterised by the rise of more diffuse power centres – in ways that would have been unimaginable under the highly controlled and regulated politics of the New Order.

But why have these shifts in the institutional apparatus of power not produced the liberal political and economic results some observers had expected? We suggest that the key to the puzzle lies, not simply in the institutional arrangements that emerged but in the sort of social conflicts and alliances that forged the post-Soeharto political scene. It was soon evident that many of the elements that had been nurtured under the authoritarian New Order could survive within the framework of a new, more democratic, regime, albeit through new and more diffuse alliances and vehicles. In fact it is the reorganisation of the old predatory power relations within a new system of parties, parliaments and elections that has been the central dynamic of politics in the post-Soeharto era.

It was crucial to the post-Soeharto trajectory that *reformasi* did not sweep aside the predatory and illiberal social and political forces nurtured by the New Order. In fact, because of the very hesitancy of *reformasi* [*Hadiz, 2000*], these were allowed to reconstitute themselves within new political vehicles and institutions, and therefore remain ascendant even though they were now

more fragmented and disorganised. Second, the legacy of three decades of authoritarianism runs deep, even if its institutional framework has unravelled. Soeharto's New Order had systematically pursued a policy of disorganising civil society, effectively paralysing most independent capacity for self-organisation among groups like the urban middle class and the working class. In such circumstances it is no surprise that when the structures of authoritarian rule finally gave way, it was the interests that had been nurtured by the New Order that were in the best position to take advantage of the opening up of political space.

The survival of old interests within the new arenas of power was assisted by two developments. Populist ideologies were deployed effectively by contending new alliances of politico–bureaucratic and business power – usually now expressed as political parties – which typically take the form of the egalitarian symbols of Islamic struggle, or more secular expressions of nationalism. These are utilised to legitimise anti-liberal political and economic agendas, which in the specific context of post-New Order Indonesia, tends to facilitate the persistence of predatory control over public institutions and resources, and the replication of old relationships more strongly at the local level.

A second factor has been the utilisation of new strategies of selective mass mobilisation and political violence through paramilitaries or militia groups, whose memberships frequently intersect with the shadowy world of organised crime [*Ryter, 1998; Hadiz, 2003*]. The actual power of these groups may vary in different localities, but they basically provide the muscle when elites need to jostle for control over government offices or resources. Thus, if groups like the *Pemuda Pancasila* and the *Ikatan Pemuda Karya* are prominent in North Sumatra – both were state-backed youth/crime organisations during the New Order – the *Banser* militia of former President Abdurrahman Wahid's PKB (National Awakening Party) is prominent in the Islamic heartland of East Java. Organisations like these have grown prominent as the bodyguards of the powerful, wealthy and ambitious, even as the military-proper, which used to play this role, has been pressured to retreat from politics.

The new circumstances described above have a number of important consequences, not the least being that business can no longer just look to powerful centres of politico–bureaucratic power within the predatory departments of state for protection, as it did during the New Order. Business must now ally with parties and parliamentary forces that compete to attain control state institutions, at the national level, and increasingly, the local.

While political decentralisation has taken place, from the Presidency to the parliament, and from Jakarta to the regions, it has hardly liberated those progressive elements of civil society that were so crucial to the expectations

of liberals and neo-liberals alike. What is ignored from this viewpoint is that anti-liberal interests incubated under the old regime have been able to hijack Indonesia's new democratic institutions, including at the local level. Rather than 'natural' political entities premised on concrete agendas of reform or reaction, the newly liberated political parties, for example, now constitute tactical alliances that are largely concerned with new ways of organising control of and access to the spoils of state power. The major parties are inhabited by many of the same political entrepreneurs and fixers, business and bureaucratic interests, henchmen and enforcers who had been part of the vast network of patronage that was the New Order. For example, the PDI-P (Indonesian Democratic Party for Struggle) of President Megawati Soekarnoputri includes former functionaries of the former state party, Golkar, and retired military officers, while PAN (the National Mandate Party) – the party of one of her chief political rivals, Amien Rais – is dominated by Muslim politicians and activists once courted by the New Order [for example, *Hefner, 2000*].

VI. DECENTRALISATION: THE EMERGENCE OF LOCAL POLITICS

The process of regional decentralisation in Indonesia – promulgated through laws 22 and 25 of 1999 (and enacted in early 2001) – provides a good case through which to examine the hijacking of democratic institutions by coalitions of predatory interests. As we have indicated, decentralisation has been a key element in the reform strategy of the IMF following the economic crisis of 1997. This confidence in decentralisation is found too in World Bank policy, which asserts that decentralised governance would 'alleviate the bottlenecks in decision making that are often caused by central government planning and control of important economic and social activities' and 'help cut complex bureaucratic procedures'. For the World Bank in particular, decentralisation has also been linked to such virtues as innovation and creativity – providing the milieu for local 'experimentation' in effective governance [*World Bank, n.d.*].

It was a process that was to also to a considerable degree based on the liberal assumption that decentralisation would enable a naturally progressive civil society to assert itself over a naturally intrusive state [*World Bank, 2000b*]. Equally importantly, the literature on regional decentralisation as produced by international development agencies typically implies that policy makers, if properly insulated from vested interests, can choose and craft the most appropriate form, pace, and sequencing of decentralisation [for example, *World Bank, n.d.*]. In this neo-liberal world-view, just as markets need to be protected from politics, so the dysfunctional effects of politics can be excluded from the real technocratic business of decentralisation.

However, the outcomes of regional decentralisation have thus far been very different from those expected by neo-liberals. As we shall see, it has resulted in the disorder and unpredictability that has led to an exodus of mining and resource investors. New demands from regional and provincial governments have posed threats, for example, to financial responsibility and austerity in fiscal management. As was the case in economic reform, decentralisation was to be forged and given its character, not by technocrats insulated from vested interest but within conflicts over power and influence between competing interests. The most important question to ask, therefore, is what sorts of interests are driving and shaping the regional decentralisation process. Only then is it possible to appreciate that the relationship between decentralisation, democracy, good governance, and a strong civil society in Indonesia is far more ambiguous than often suggested by neo-liberals [for example, *World Bank, 2000b*].

One of the lessons of the Indonesian case is that factors of transparency and accountability, and other associated aspects of 'good governance', are no more inherent within decentralised government than within national levels of government. These were to contradict the interests of forces now ascendant at the local level. Such interests included former bureaucrats and gatekeepers, entrepreneurs at least partly dependent on state projects and contracts, professional politicians with links to the old New Order parties, or activists of such organisations as the HMI (*Himpunan Mahasiswa Islam*), KNPI (*Komite Nasional Pemuda Indonesia*), or GMNI (*Gerakan Mahasiswa Nasionalis Indonesia*), from which the New Order used to recruit apparatchiks and political operators. Others include the henchmen of the old regime's informal apparatus of violence – like the *Pemuda Pancasila*. Many of these are intent on securing their position in the scramble to gain ascendance over state institutions and their resources, as well as to build new, localised systems of patronage and business alliances.

Though forced into partial retreat since 1998, the military is far from completely out of the equation, including in local level politics. Local military commanders are still able to engage in political and business alliances – as they did in the New Order – on the basis of the 'territorial command structure', which provides for a military counterpart to each level of civilian governance. Ideologically, the military has tended to favour a strong, centralised state, and so military top brass periodically warn against decentralisation's potential effects on Indonesian national unity. Nevertheless, it is conceivable that the current set up remains lucrative especially for military commands located in industrial and commercial centres as well as natural resource-rich areas [for example, *Schulte-Nordholt, n.d*].

Not surprisingly, at the onset of the decentralisation process, fears were already expressed by some of these local politicians about the emergence of

decentralised networks of KKN (the Indonesian acronym for 'corruption, collusion, and nepotism').[3] In the meantime, political newcomers – typically hailing from academia or NGOs – that were often more reformist and disentangled from predatory networks, find themselves constrained in what they are able to achieve. Many have found that they have little option but to latch onto existing coalitions to survive: coalitions with more established sources of money and an apparatus of violence for their own political survival.[4]

The province of North Sumatra – a major centre of manufacturing industry, as well as forestry and agro-industry – provides some good illustrations of how regional decentralisation has yielded unexpected results. Here *preman* (gangsters), typically linked to youth/crime organisations, have emerged as increasingly important political actors. Some of their members even hold local parliamentary seats and some top executive positions in local government. Indeed, the election of the current mayor of the capital city of Medan – a local entrepreneur – took place through a process heavily tainted by accusation of money politics and political intimidation in which *preman* reportedly played a key role [*Ryter, 2000; Hadiz, 2003*].[5] Similar cases have been reported in other provinces, such as Yogyakarta and East Java. In essence, what is happening in the regions is the replication *ad infinitum* of the predatory pattern of state–business relations, which under New Order rule, was concentrated in Jakarta, but is now growing rapidly more or less autonomously at the local level.

The stakes that are involved are not uniform across the sprawling Indonesian archipelago. They may be relatively low in such natural resource-poor areas like Nusa Tenggara Barat, but very high for the political entrepreneurs in resource-rich places like the regency of Kutai in East Kalimantan, where oil and forestry revenues make it far wealthier than the vast majority of other localities. Here, tremendous opportunities present themselves by independently replicating at the local level the old centralised relationships between state and capital. For local officials in places like these, breaking free from the shackles of Jakarta makes immense economic and political sense.

However, the growing assertiveness of local officials can cause headaches for local business and for foreign investors, presenting an important dilemma for market reformers and fractures within the neo-liberal camp. One source of distress is the penchant of local officials for instituting new levies on businesses as means of producing new sources of local revenue.[6] Compounding the problem is a lack of consensus about what the decentralisation legislation entails in terms of investment procedures. Officials at all levels of governments – central, provincial and local – claim ultimate authority over many kinds of investment activity, thus causing much

unpredictability as far as the common practice of bribing officials for licences and the like is concerned.[7] It is instructive that local politicians also proposed the idea that regional administrations should be allowed to borrow money from overseas [*Simandjuntak, 2003*]. The idea was quickly quashed by Jakarta, however, no doubt to the relief of neo-liberals in the IMF, who had become increasingly fearful of local financial mismanagement.

All of the above contradicts neo-liberal assumptions that, by placing government more closely within the ambit of civil society, political decentralisation embodies a natural affinity with democracy and good governance and a strong civil society [*World Bank, 2000b*]. The Indonesian case demonstrates that democratised and decentralised institutions of governance can be just as readily appropriated and captured by decidedly 'uncivil' groups like political gangsters and corrupt alliances formed by elements of a defunct authoritarian regime, including its old bureaucracy [for example, *Malley, 2003*]. This is especially the case in a context in which there is no organised and cohesive liberal political coalition to effectively compete with them, such as in post-Soeharto Indonesia.

But again, the Indonesian case is hardly unique. Hutchcroft [*1998*] has suggested for the Philippines that post-Marcos era decentralisation has not eroded the iron grip of well-established clans who secure their dominance over politics through money and intimidation. He also notes that the enormous costs of winning an election effectively hinder new reformist forces from challenging the old forces. This was also the situation when Thailand moved from authoritarian to electoral politics, and where money politics came to dominate political life [*Girling, 1996; Pasuk and Baker, 1997*].

VII. WHERE IS THE NEO-LIBERAL ALLIANCE?

We have essentially argued that entrenched power relations are able to consolidate themselves across periods of institutional change. The case of Indonesia shows that interests that were dominant under the New Order may shape the new democracies or economic regimes and preserve and consolidate their authority within them as effectively as they did under centralised authoritarianism. An important part of the story, as mentioned earlier, is the fact that these entrenched interests remained relatively intact despite the devastating shocks of the crisis that were assumed to make reform impossible to resist. Nor were they swept aside by *reformasi*, which was hesitant and gradual. More importantly, they were not replaced by a viable neo-liberal coalition. Indeed, the failure of events to produce such a coalition is critical to the story.

Of course, the failure of such a coalition has much to do with the great success the New Order had encountered in controlling and suppressing

dissent and independent organisation. A rigid state–corporatist system was imposed for three decades whereby all societal organisation was compartmentalised into state-backed corporatist institutions (for business, labour, youths, and the like). As the depoliticisation of civil society proceeded, the emerging urban middle class and bourgeoisie also grew increasingly conservative – relatively unscathed by the sort of violent political repression that had taken place in Latin America and basking in their privileged position and prosperity in the New Order [*Robison, 1996*]. Thus, they were hardly ever a source of serious demands for fundamental reforms. As mentioned earlier, nor were international corporate interests: these were quite happy to cooperate with Soeharto and to engage in profitable business ventures with his cronies.

It is instructive that, today, many foreign business interests have decided to defend the privileges they gained under the old regime rather than play any active part in pressing for political reform.[8] We find an implicit and sometimes explicit nostalgia for the Soeharto regime among international investors – as we do among sections of the Indonesian middle class [*Jakarta Post, 15 May 2002*]. It is clear, therefore, that such groups have less of an interest in liberal democratic reforms than they do in social order, predictability and the protection of property rights – all of which could be accommodated within a range of political regimes other than a liberal democratic one. Ideally, what they really seek is the sort of regulatory state, or system of authoritarian liberalism described by Jayasuriya [*2000*]; a system that will guarantee the freedoms of the market, at the same time that these are upheld by force – in order to brush aside potential opposition from organised labour, environmental groups, or others that may challenge the social inequalities produced by the free market.

But this regulatory state, like all modes of organising power, requires a social and political base, which as yet does not exist in Indonesia. Neoliberals within the World Bank and the IMF expected liberal economic reforms to transpire as a matter of course after the shock of a devastating economic crisis. At the same time, some political observers of Indonesia expected a gradual, but more or less linear, change in the direction of liberal democratic modes of governance, once Soeharto's regime had crumbled and the institutional skeleton of markets and democracy had been put in place. However, rather than being a simple technical problem of institutional design, the Indonesian case has underlined the fact that economic and political reforms of any type needed to be enforced politically and through political struggle. Building markets, constructing institutions and institutional capacity or even engineering regime change is not enough without a politically cohesive and effective mode of organisation of interest – for example, in the form of a genuinely effective liberal party with a rule of law

or market reform agenda. In the present conjuncture, save for isolated pockets of liberals in a few government ministries and agencies, and some academics and intellectuals, the building blocks for such a vehicle is virtually nowhere to be found.

NOTES

1. Two sources where the general neo-liberal position is most consistently set out are the World Bank country reports [see, for example, *World Bank, 1998, 1999*], and the *Bulletin of Indonesian Economic Studies*. See also McLeod and Garnaut [*1998*], and Hill [*1996*].
2. Initially estimated at US$54 billion, Indonesia's private sector debt was reassessed at US$81 billion with over US$34 billion due for payment in 1998.
3. Interview with Khairuddin, head of the Golkar faction in the Yogya parliament, 5 Jan. 2001; Interview with Syukri Fadholi, Head of the PPP faction in the Yogya parliament, now Deputy Mayor of Yogyakarta city, 15 December 2000; Interview with Victor Simamora, member of the North Sumatra provincial parliament for the small Partai Bhineka Tunggal Ika, 3 July 2001, who accused his colleagues of taking bribes in the tendering of projects; Interview with O.K. Azhari, PDI-P member of the Medan municipal parliament, 5 July 2001.
4. Examples are from an interview with the late Ryadi Gunawan, then head of the PDI-P faction in the Yogyakarta provincial parliament, 9 December 2000. A noted NGO activist and academic before he entered politics, he found that he had to accept co-existence in the PDI-P with former Golkar operators and moneymen as well as the party *satgas* (militia), which had quickly developed an unsavoury reputation for thuggery. Though Ryadi retained enthusiasm for what he felt he could achieve, he admitted to being only '70 per cent satisfied' with developments in the party.
5. This was confirmed in personal communication with Martius Latuperisa, Medan parliamentarian and head of the local *Forum Komunikasi Putra Putri Purnawirawan ABRI*, a military-linked 'youth' organisation, 17 July 2002.
6. Interviews, with Yopie Batubara, head of North Sumatra Chamber of Commerce and Industry, and Surya Sampurna, businessman, respectively 8 September 2001 and 6 July 2001.
7. This was found during fieldwork in North Sumatra. Officials at different levels of government would privilege the role of their respective institutions in 'facilitating' investment. Abdul Hafid, the *bupati* (regent) of Deli Serdang – a major manufacturing centre as well as the site of major plantations – was particularly adamant that he had absolute authority to do what he wished with most investment applications. Interview, 7 September 2001. Not surprisingly, this information is contradicted by the Governor of North Sumatra, T. Rizal Nurdin, interview 7 July 2001. The latter, a retired general and New Order appointee, has just been re-elected with the support of the PDI-P.
8. Thus, foreign energy companies, vigorously supported by governments that had provided billions of dollars through export banks and insurers to support their bids, moved against PLN when it defaulted on payments and sought to cancel contracts after the economic crisis of 1997/1998 [for example *Far Eastern Economic Review, 21 October 1999: 63–64; AWSJ, 9 March 2000: 1*].

REFERENCES

Arief, S and A. Sasono, 1973, *Indonesia: Dependency and Underdevelopment*, Kuala Lumpur, META.

Arndt, H., 1967, 'Economic Disaster and the Task Ahead', in T.K. Tan (ed.), *Soekarno's Guided Indonesia*, Brisbane: Jacaranda.

Camdessus, M., 1997, 'Asia will Survive with Realistic Economic Policies', *Jakarta Post*, 8–9 Dec.

Budiman, A., 1999, 'The 1998 Crisis: Change and Continuity in Indonesia', in A. Budiman, B. Hatley and D. Kingsbury (eds.), *Reformasi: Crisis and Change in Indonesia*, Melbourne: Monash Asia Institute.

Cole, D., and B. Slade, 1996, *Building a Modern Financial System: The Indonesian Experience*, Cambridge: Cambridge University Press.

Cole, D., and B. Slade, 1998, 'Why has Indonesia's Fiscal Crisis been so Bad', *Bulletin of Indonesian Economic Studies*, Vol.34, No.2.

Dorn, J.A., 1993, 'Economic Liberty and Democracy in East Asia', *Orbis*, Vol.37, No.4.

Girling, J., 1996, *Interpreting Development. Capitalism, Democracy, and the Middle Class in Thailand*, Ithaca: Cornell University Southeast Asia Program.

Glassburner, B., 1971, 'Indonesian Economic Policy after Soekarno', in B. Glassburner (ed.), *The Economy of Indonesia: Selected Readings*, Ithaca: Cornell University Press.

Government of Indonesia, various years: 1997, 1998, 1999, 2000, Letters of Intent and Memoranda of Economic and Financial Policies addressed to the International Monetary Fund (http://www.imf.org/external/NP/LOI).

Hadiz, V.R., 2000, 'Retrieving the Past for the Future? Indonesia and the New Order Legacy', *Southeast Asian Journal of Social Science*, Vol.28, No.2.

Hadiz, V.R., 2003, 'Power and Politics in North Sumatra: the Uncompleted *Reformasi*', in E. Aspinall and G. Fealy (eds.), *Local Power and Politics in Indonesia: Democratisation and Decentralisation*, Singapore: Institute of Southeast Asian Studies.

Hamilton-Hart, N., 2000, 'Indonesia: Reforming the Institutions of Financial Governance', in G. Noble and J. Ravenhill (eds.), *The Asian Financial Crisis and the Architecture of Global Finance*, Cambridge: Cambridge University Press.

Hefner, R.W., 2000, *Civil Islam: Muslims and Democratisation in Indonesia*, Princeton: Princeton University Press.

Hill, H., 1996, *The Indonesian Economy Since 1966: Asia's Emerging Giant*, Cambridge: Cambridge University Press.

Hutchcroft, P.D., 1998, 'Sustaining Economic and Political Reform: The Challenges Ahead', in D. Timberman (ed.), *The Philippines: New Direction in Domestic Policy and Foreign Relations*, New York: Asia Society.

International Monetary Fund, 2002, *Indonesia: Selected Issues*, Washington DC.

Jayasuriya, K., 2000, 'Authoritarian Liberalism, Governance and the Emergence of the Regulatory State in Post-Crisis East Asia', in R. Robison, M. Beeson, K. Jayasuriya, K and Hyuk-Rae Kim (eds.), *Politics and Markets in the Wake of the Asian Crisis*, London: Routledge.

Lande, L., 2000, 'Clearing up Indonesia's Financial Debris', Bloomberg, Jakarta Online.

Liddle, R.W., 2001, 'Indonesia's Democratic Transition: Playing by the Rules', in A. Reynolds (ed.), *The Architecture of Democracy*, Oxford: Oxford University Press.

Lindsey, T., 2000, 'Black Letter, Black Market and Bad Faith: Corruption and the Failure of Law Reform', in C. Manning and P. van Dierman (eds.), *Indonesia in Transition: Social Aspects of Reformasi and Crisis*, Singapore: Institute of Southeast Asian Studies.

MacIntyre, A., 1993, 'The Politics of Finance in Indonesia: Command, Confusion and Competition', in S. Haggard, C. H. Lee and S. Maxwell (eds.), *The Politics of Finance in Developing Countries*, Ithaca: Cornell University Press.

Malley, M., 2003, 'New Rules, Old Structures and the Limits of Decentralisation', in E. Aspinall and G. Fealy (eds.), *Local Power and Politics in Indonesia: Democratisation and Decentralisation*, Singapore: Institute of Southeast Asian Studies.

McLeod, R., 1994, 'Introduction', in R. McLeod (ed.), *Indonesia Assessment 1994: Finance as a Key Sector in Indonesia's Development*, Singapore: Institute of Southeast Asian Studies.

McLeod, R., and R. Garnaut, 1998, *East Asia in Crisis: From Being a Miracle to Needing One*, London, Routledge.

Moertopo, A., 1973, *The Acceleration and Modernisation of 25 Years' Development*, Jakarta, Centre for Strategic and International Studies.

Mortimer, R., 1973, 'Indonesia: Growth or Development', in R. Mortimer (ed.), *The Illusion of Indonesia's Accelerated Modernisation*, Sydney: Angus and Robertson.

O'Donnell, G., and P.C. Schmitter, 1986, 'Tentative Conclusions about Uncertain Democracies', in G. O'Donnell, P. Schmitter and L. Whitehead (eds.), *Transitions from authoritarian Rule: Prospects for Democracy*, Baltimore: Johns Hopkins University Press.

Pasuk Phongpaichit and C. Baker, 1997, 'Power in Transition: Thailand in the 1990s,' in K. Hewison (ed.), *Political Change in Thailand*, London: Routledge.

Pincus, J., and R. Ramli, 1998, 'Indonesia: from Showcase to Basket Case', *Cambridge Journal of Economics*, No.22.

Robison, R., 1986, *Indonesia: The Rise of Capital*, Sydney, Allen and Unwin.

Robison, R., 1994, 'Organising the Transition: Indonesia Politics in 1993/1994', in R. McLeod (ed.), *Indonesia Assessment 1994: Finance as a Key Sector in Indonesia's Development*, Singapore: Institute of Southeast Asian Studies.

Robison, R., 1996, 'The Middle Class and the Bourgeoisie in Indonesia', in R. Robison and D.S.G. Goodman (eds.), *The New Rich in Asia: Mobile Phones, McDonalds and Middle Class Revolution*, London: Routledge.

Robison, R., 1997, 'Politics and Markets in Indonesia's Post-Oil Era', in G. Rodan, K. Hewison and R. Robison (eds.), *The Political Economy of Southeast Asia: An Introduction*, Melbourne: Oxford University Press.

Robison, R., and A. Rosser, 1998, 'Contesting Reform: Indonesia's New Order and the IMF', *World Development*, Vol.26, No.8.

Robison, R. and V.R. Hadiz, 1993, 'Privatisation or the Reorganisation of Dirigism?: Indonesian Economic Policy in the 1990s', *Canadian Journal of Development Studies*, Special Edition, Dec.

Robison, R. and V.R. Hadiz, 2004, *Reorganising Power in Indonesia: The Politics of Oligarchy in an Age of Markets*, London, Routledge.

Rosser, A., 2002, *The Politics of Economic Liberalisation in Indonesia: State, Market and Power*, Richmond, Curzon.

Ryter, L., 1998, 'Pemuda Pancasila: The Last Loyalist Free Men of Suharto's New Order?', *Indonesia*, No.66.

Ryter, L., 2000, 'A Tale of Two Cities', Inside Indonesia, No.63, http://www.serve.com/inside/edit63/loren1.htm.

Schulte-Nordholt, N., n.d., 'Pelembagaan Civil Society Dalam Proses Desentralisasi di Indonesia',http://www.knaw.nl/indonesia/transition/workshop/work_in_progress02.pdf

Schwarz, A., 1999, *A Nation in Waiting: Indonesia's Search for Stability*, Sydney: Allen and Unwin.

Simandjuntak, R.A., 2003, 'Pinjaman Daerah: Kenapa Tidak?, *Tempo Interaktif*, No.01/XXXII.

Siregar, R., 2001, 'Survey of Recent Developments', *Bulletin of Indonesia Economic Studies*, Vol.37, No.3.

Sjahrir, 1997, 'The Struggle for Deregulation in Indonesia', in I. Chalmers and V.R. Hadiz (eds.), *The Politics of Economic Development in Indonesia: Contending Perspectives*, London: Routledge.

Sochoed, A.R., 1977, 'Commodities and Viable Economic Sectors: A Possible Basis for Development Planning', *Indonesian Quarterly*, Vol.5, No.1.

Soesastro, H., 1989, 'The Political Economy of Deregulation', *Asian Survey*, Vol.29, No.9.

Suta, I.P.G.A., 2000, 'Reforming the Indonesian Banking System', *Jakarta Post*, 12–13 July.

Thomas, K. and J. Panglaykim, 1973, *Indonesia - The Effects of Past Policies and President Soeharto's Plans for the Future*, Melbourne, Committee for Economic Development of Australia.

United States Agency for International Development (USAID), n.d., 'Transition to a Prospering and Democratic Indonesia', http://www.usaid.gov/id/docs-csp2k04.html.

van Klinken, G., 1999, 'How A Democratic Deal Might Be Struck', in A. Budiman, B. Hatley and D. Kingsbury (eds.), *Reformasi: Crisis and Change in Indonesia*, Melbourne, Monash Asia Institute.

Winters, J., 1997, 'The Dark Side of the Tigers', *Asian Wall Street Journal*, 12–13 Dec.

Winters, J., 2000., 'The Financial Crisis in Southeast Asia', in R. Robison, M. Beeson, K. Jayasuriya, and Hyuk-Rae Kim (eds.), *Politics and Markets in the Wake of the Asian Crisis*, London, Routledge.

World Bank, 1983, *World Development Report*, New York, Oxford University Press.

World Bank, 1995. *Indonesia: Improving Efficiency and Equity – Changes in the Public Sector's Role*, Jakarta, Country Department III, East Asia and Pacific Region, 4 June.

World Bank, (1998) *Indonesia in Crisis: A Macroeconomic Update*, Washington DC.: World Bank.

World Bank 1999, *Indonesia: From Crisis to Opportunity*, Jakarta, 21 July.

World Bank, 2000a, *Indonesia: Accelerating Recovery in Uncertain Times*, East Asia Poverty Reduction and Economic Management Unit, Jakarta, 13 Oct.

World Bank, 2000b, *Working Together: The World Bank's Partnership with Civil Society*, Washington DC: World Bank.

World Bank, n.d., 'Decentralization Net', http://www1.worldbank.org/publicsector/decentralization/Different.htm.

A Legitimate Paradox: Neo-liberal Reform and the Return of the State in Korea

DAVID HUNDT

I. INTRODUCTION

This article investigates the role of the Korean[1] state in the post-crisis era, particularly in relation to its stewardship of the neo-liberal reforms required as a condition of the IMF loan package. It argues that the process of neo-liberal reform has contributed to a reformulation of power relativities in the national political economy, but contrary to the expectations of some, state elites – particularly the president and his senior ministers – appeared to be the main beneficiaries. The paradox that emerges is that neo-liberal reforms do not necessarily weaken the influence of state elites: the case of Korea indicates that some elites grasped an opportunity to regain leadership of the economic policy-making agenda.

The pro-reform state elites have followed a different logic to that of earlier periods of industrialisation, enthusiastically pursuing the liberalisation of

David Hundt, School of Political Science and International Studies, University of Queensland, Brisbane, Australia. E-mail: s4014111@student.uq.edu.au.
This article has benefited from the advice of Mark Beeson, Kevin Hewison, Stephen Bell, Richard Robison, and anonymous reviewers for the *Journal of Development Studies*.

financial markets and industrial restructuring while also implementing the framework for a rudimentary welfare state, instead of focusing on incentives for corporate investment. Rather than sounding the death knell for the state, the post-crisis period has witnessed the ongoing transformation of what E.M. Kim [*1997*] and Henderson [*1993*] term a developmentalist, 'plan-rational' state to a 'market-rational' one. While economic development continues to be its main priority, the state's *modus operandi* has changed considerably. Despite strong opposition from the chaebols,[2] the state has reinvented itself as the facilitator of financial and industrial restructuring.

This article advances the propositions outlined above through a range of inter-related arguments. First, it is argued that in a maturing and increasingly sophisticated economy, the state needed support from both domestic and international actors to regain control of the policy-making agenda. This entailed both appeals to populism and the adoption of neo-liberal reform. There was a new social contract whose primary focus would be on the welfare of the national economy, even if that necessitated anti-chaebol measures or the involvement of foreign capital – notions anathema to the traditional Korean developmental paradigm. Next the article notes that the process of neo-liberal reform began well before the outbreak of the crisis, and that a significant portion of the impetus for reform came from Korean political and economic elites rather than external actors such as the IMF. The crisis was an opportunity to intensify earlier reform measures. Further, the state's success in re-legitimating itself was in at least in part due to the support of the public, who were vehemently opposed to the chaebols' continued dominance of the economy. The strong anti-chaebol sentiment shared by the Kim government and the public resulted in attempts to rein in, rather than nurture, the chaebols. Thus, the breakdown of the traditional alliance between the state and business, and the transition to the new social contract, are features of the post-crisis period. The article concludes by briefly exploring some implications of these developments.

II. THE STATE IN THE PRE-CRISIS PERIOD

This section provides a brief sketch of the Korean 'developmental' state prior to the 1990s – a period in which neo-liberal reform was pursued more extensively than is often acknowledged. The article argues that the Korean state lost its sense of developmental purpose – and legitimacy – during the 1980s; thus the attainment of a new sense of purpose was all the more significant in the post-crisis period.

In the literature devoted to Korea's modernisation, a common theme has been that the developmental state had the unique ability to master market forces and harness them for industrialisation. Wade [*1990*] for instance

claims that in a 'governed market', the state steered investment into priority sectors; this would not have occurred under purely free market conditions, where investment decisions are almost entirely the remit of the private sector. According to Amsden [*1990: 16*], a judicious combination of incentives and disincentives ('support and discipline') produced the optimal level of competition amongst the chaebols while also ensuring that the needs of the wider economy were met by stimulating trade and investment. In a similar manner Kim Yong Hwan, a policy-maker during the early phases of industrialisation, writes of the state's stewardship of the heavy and chemical industry drive in the 1970s that 'the policy would deliver the optimal results in all perspectives – that is, the mutually disciplining and supporting relationship between economic rationalisation and technological rationalisation' [*Y.H. Kim 2002: 116*]. That is, the state 'got the prices wrong' in order to make particular industries, such as automobiles, steel and shipbuilding, profitable [*Amsden, 1989*].

Nonetheless, the developmental state model depicted above faced opposition from several quarters, starting in the 1980s. First, the US intensified efforts to open the product and financial markets of Korea and Japan once these countries attained relative prosperity and with the waning of the Cold War in Asia [see *Cumings, 1998*]. Also opposed to state-led development were the international financial institutions (IFIs), especially the IMF. The IFIs were the main instruments available for resolving economic crises in Latin America in the 1980s and again in 1994–95. Equally important, the IFIs' 'prescriptions' for recovery drew chiefly upon the 'Washington consensus', which sought to eliminate the statist development paradigm in developing countries, and to impress upon them the benefits of shifting to a market-based economy [*Williamson, 2000: 252*].[3]

The anti-statist rhetoric emanating from the IFIs and Western governments began to manifest itself within Korea in the form of pro-reform policy-makers who called for the reduction or abolition of many of the traditional elements of the developmental state. Industrial policy, which illustrated most clearly the tendency of the developmental state to involve itself in micro-level decisions, was anathema to advocates of neo-liberal reform. Crucially, the 1980s also witnessed the democratisation of the Korean body-politic, and some features of the military–authoritarian state were in the process of reform. Most notably, from the viewpoint of this article, the Economic Planning Board (EPB) – whose ranks included numerous US-educated reformers – was subsumed into the Ministry of Finance and Economy (MOFE), traditionally a stronghold of bureaucrats who advocated a greater role for the state [*J.-H. Kim 2000*]. This symbolic change resulted in statist policy instruments being largely abandoned by the early 1990s, significantly reducing the state's capacity to intervene in the economy. This development

was accompanied by a concomitant rise in the influence of the chaebols [*Chang, 1998b*].

This reduction in the influence of the state – and increase in that of the chaebols – amounted to the *de-legitimation* of the state's role in the national economy. Legitimacy, according to Seabrooke [*2002: 23*], 'involves the contestation of power between state and society'. This contestation does not merely involve the attainment, use and retention of resources: it also entails the shaping of the policy agenda and the ascription of an 'appropriate' role to the state. The norms and material interests of society influence the contestation of power, and thus determine the degree of legitimacy of the state at a given point in time [*Seabrooke, 2002: 2–3*]. Likewise, this article contends that the dominance of the neo-liberal paradigm, both domestically and within the IFIs and Western governments, assisted proponents of reform in the battle for ideas about the role of the Korean state. In particular, the proponents of reform – who included the IMF, the US government, the chaebols and, increasingly, the chiefly US-educated bureaucrats, arguing that the state should be relegated to a supervisory role, through which it would facilitate the development of the economy as a whole, rather than be involved in sectoral industrial policies [*Weiss, 2003*].

State institutions, it has been claimed, are often 'time-limited in their effectiveness'. Institutional arrangements undergo 'a process of growth and decay ... some of the positive synergies that occurred during a phase of expansion can turn negative under changing historical circumstances' [*Block, 1986: 182*]. In short, the institutions that serve society at one point in time may need to be reformed to retain their effectiveness. As the case of Korea in the post-crisis period demonstrates, it was possible for the state to regain legitimacy by adopting the dominant contemporary ideology (neo-liberalism), and altering its institutional form accordingly. Specifically, state leaders played an active role in the resolution of the financial crisis of late 1997. Kim Dae-jung and his chief ministers facilitated neo-liberal reform in order to re-legitimise their position in the national political economy, from which they would be able to continue exercising a significant degree of influence on the policy-making agenda.

III. THE REFORM PACKAGE

This section of the article outlines the reform agenda that the Kim government negotiated with the IMF in return for a loan of sufficient scale to cover Korea's short-term debts. What should be noted, however, is that the government did not wholly oppose these reforms: indeed, the measures that were pursued largely coincided with the policies that incoming President Kim Dae-jung had long championed. As will be discussed further, Kim and senior

officials became more than just willing accomplices to the IMF during the crisis; they oversaw a comprehensive attempt to wrest control of the national economy back from the chaebols, which were widely blamed for causing the crisis in the first place.

First, the government tightened fiscal and monetary policies in order to reduce inflation and the budget deficit. Taxes were raised, and funds diverted from defence to welfare, in preparation for the anticipated increase in unemployment [*Park, 2002*]. Second, the government reorganised the functions of the state. Launched with the goal of creating a 'smaller but more efficient' government, the re-organisation transferred the functions of some ministries to local governments and lower-level civil servants, furthering the efforts of the previous government to democratise the state apparatus [*No, Lee et al., 2002: 380–81*]. Other aims of public sector reform were a reduction in the size of the public sector workforce, the privatisation of state-owned enterprises, the introduction of 'performance-based' pay and employment systems for public servants, and the delegation of more control over economic policy-making to the executive and prime minister [*E.M. Kim, 1999: 43–46; Na, 2003: 298*].

A third plank of the agenda was labour market reform, since the IMF considered 'flexibility' to be vital if industrial restructuring was to proceed. It was argued that some jobs would inevitably be lost during the restructuring of the chaebols. The 'Tripartite Commission on Industrial Relations', formed in January 1998 with the goal of improving flexibility, resulted in the major trade union federations agreeing to layoffs in 'unavoidable' circumstances [*S.-J. Kim, 1998: 135*]. In return, unions were granted permission to engage in political activities and to extend their coverage to the public service and education [*Park and Park, 2000: 86*]. While the revision of the Labour Relations Law in March 1997 had resulted in trade unions acceding to the notion of limited job security in return for greater freedoms for union activity [*No, Lee et al., 2002: 376–77*], the IMF reforms removed almost entirely the expectation of job security. The government also established a $4.4 billion fund to compensate for job losses resulting from restructuring. Another outcome of the tripartite talks was the legalisation of 'dispatch centres', which were responsible for employing workers on short-term contracts for less than regular wages [*Kwon and O'Donnell, 1999: 279*].

Fourthly, financial sector reform was pursued, the main goal of which was to increase the level of competition among financial institutions. Introducing foreign competition to the financial sector would, the IMF claimed, raise the overall performance of the sector and encourage the closure of insolvent institutions. At the same time, the financial condition of many institutions was impaired by non-performing loans, so their overall performance was poor. After initiating a process of rationalisation, the government re-

capitalised the surviving institutions. The net effect of these changes, it was claimed, would be a more competitive, better-capitalised and market-oriented financial sector [*Choong, 2001: 461; Haggard, 2000: 149*]. The independence of financial supervisory agencies was also enhanced, with the IMF advising the government to grant full independence to the Bank of Korea, which it had not hitherto enjoyed. A new supervisory agency, the Financial Securities Commission (FSC), would complement the newly independent central bank [*S.-J. Kim, 1998: 131; Park, 2002: 65*].

Finally, the reforms targeted the management of the chaebols (governance) and their production processes (restructuring). Improvements to corporate governance would involve the 'five-plus-three' principles. The initial five principles were: greater transparency, better accounting and reporting, greater accountability by owner-managers, abolition of mutual guarantees among chaebol affiliates, and a streamlining of the chaebols' operations. The government later announced additional measures to improve corporate governance. Financial market supervisory agencies were to more rigorously oversee the chaebols' control of non-bank financial institutions (NBFIs), a source of much of their credit, as well as inter-subsidiary investments. In addition, illicit collaboration was to be dissuaded by preventing 'irregular inheritances' and gift giving among chaebol owners [*Mo and Moon, 2003: 128–32*].

To emphasise the need for industrial restructuring, the IMF argued that one of the main causes of the crisis was low profitability, which in turn was the result of over-capacity and excessive investment in industries such as shipbuilding, automobiles, electronics and semiconductors. In the words of Kim's first Minister for Finance and Economy Lee Kyu-seong, 'Companies, in the past, had a finger in every pie and concentrated on expanding their power quantitatively but now that kind of indiscriminate expansion is instead acting as a burden' [*Song, 1999: 97*]. The proposed remedy to this problem was the elimination of surplus production capacity, in the form of the outright shutdown of plant and equipment, asset swaps between chaebols in similar industries ('big deals'), as well as 'workout programs', which involved an injection of public funds to re-capitalise the chaebols in return for the elimination to the practice of mutual debt guarantees between chaebol affiliates [*Cumings, 1998: 63–64; Choi, 2002: 268; Shin, 2000: 191–94*].

IV. LEARNING TO LOVE THE IMF?

The reforms had an all-pervading effect on the Korean economy. Some commentators have referred to the IMF reforms as a 'mistake' imposed on an unwilling country under crisis conditions. Feldstein [*1998*], for instance,

chides the IMF for overstepping the mark during the crisis by insisting that loan recipients undergo major structural and institutional change. Radelet and Sachs [*1998: 18–20*], meanwhile, claim that macro policies were generally sound and that the crisis was attributable mainly to the destabilisation of international financial markets due to investor panic. The response to the crisis should have been more moderate, it is argued; instead of over-reacting and requesting wide-ranging institutional reform [*Wade, 1998*], the IMF should have calmed markets and allowed the crisis countries to resume growth while implementing regulatory reforms that would have helped their financial systems resist sudden shifts in capital flows.

The purpose of this article, however, is not to assess the severity of the reform package. Bustelo [*2000*] performs that task adequately. Instead, it is argued here that to castigate the IMF for the reforms is to ignore the point that Korean officials were not only highly complicit in the implementation of the reforms; they were more than willing to accept the chance to refashion the national political economy in line with the reforms. Even prominent defenders of the statist paradigm such as Chang [*1998a, 1998b*] and Chang, Park and Yoo [*1998*] note that the IMF reforms were only an extension of the Kim Yong-sam (1993–98) government's efforts to roll back the developmental state's most characteristic elements such as restrictions on duplicate investment – which, as will be seen later in this article, were not enforced when Samsung entered the car industry. According to these scholars, the crisis could be attributed more to policy failure by the Kim Yong-sam government than structural factors such as external pressure from the US.

Accordingly, it is pertinent to note that Kim Dae-jung and his senior economic ministers consistently articulated a tough policy on chaebol reform, calling for a complete overhaul of the extant model of state–business relations. In the view of Kim's appointee as head of the Bank of Korea, 'we should have transformed quickly in the early 1980s ... we basically failed in the transition to a new market economy system' [*Bu and Jang, 1998: 221*]. Kim's then finance minister Kang Bong-gyun summarised the government's approach to economic policy as 'getting rid of the factors that have prevented the market mechanism from working over the past few decades' [*Kwon, 2000: 76*]. Even before taking office, Kim indicated that the privileges offered by previous regimes would be withdrawn. At a press conference on the day after his election, Kim [*1997*] enunciated his preference for a market economy, claiming that his government would 'totally rescue all firms from the chains of power and from the protection of power ... only firms that adapt to the market economy and are victorious in global competition will survive'. According to one insider, Kim would have pursued the sort of reforms that the IMF had demanded even if the financial crisis had not occurred: 'When President Kim was running for office, he once said in private "it's worked out

for the best" after the IMF demanded that the chaebols be reformed' [*Yun, 1999: 272*]. That is, the president-elect believed that reckless investment on the part of the chaebols had imperilled not only the conglomerates but also the entire national economy. Ending this outdated system, with its high associated social and political costs, would be a high priority.

Lee Kyu-seong claimed that previous governments and the chaebols were jointly responsible for the crisis – a claim that would be repeatedly heard as the post-crisis period wore on. In his view, the crisis was attributable to the accumulated ills of an 'authoritarian political–bureaucratic economy (*gwanchi gyeongje*)', which Lee claimed delayed the development of democracy and a functioning market economy; a faulty 'globalisation' policy, which had opened financial markets but not introduced the market principles of responsibility and punishment; and the failure of the chaebols to restructure in response to the changing conditions of the global economy [*K.-H. Kim, 1998: 169–70*]. For Kim Dae-jung's economic team, then, reform was inevitable. As Lee commented elsewhere, 'there isn't really any response apart from the policies prescribed by the IMF' [*Song, 1999: 93*].

If the political economy were altered in the ways that the incoming government was proposing, it would have represented a significant change from the uniquely Korean situation of the past, when firms with a weak capital base grew on the basis of government favours and close ties with political leaders [*Yoon, Kim and Lee, 2003: 358–59*]. This system, referred to as *jeonggyeong yuchak* in Korean, is precisely the set of arrangements that Kim Dae-jung's government sought to bring to end through the reform drive after the crisis.

While it is possible to argue that the *raison d'être* of the Korean state has changed markedly in the wake of the neo-liberal reforms, this article contends that the crisis and reforms expedited changes that were already underway. Crucial support for a change to the statist paradigm came from both the US-trained technocrats and the Kim Yong-sam government which came to power in 1993. This trend became even more apparent with the inauguration of Kim Dae-jung as president. Gradually, the ideological and institutional bases of strategic intervention in the political economy eroded, resulting in a form of liberalisation that sought to weaken the developmental role of the state [*Weiss and Hobson, 2000: 62*].

To illustrate this change in the role of the state, this article refers to what E.M. Kim [*1997*] describes as the shift from a 'comprehensive' to a 'limited' developmental state. According to Kim, a comprehensive developmental state (CDS) is 'plan-rational' rather than 'market-rational', meaning that the state focuses on development rather than regulation. The CDS, Kim claims, caters to the economy's long-term interests by supporting the private sector during its infancy. As the sophistication of

the economy increases however, it is more difficult for the state to perform these tasks, because firms seek greater autonomy from the state. Instead, the state plays a supervisory and regulatory role, transforming in the process from being 'pro-business' to 'pro-market'. In other words, the structural transformation of the economy determines the role of the state. This implies that the state will be less concerned about promoting the interests of specific firms (as was the case in the past): instead, the interests of the economy as a whole become paramount. By acting to further these broad interests the state is able to regain legitimacy as a participant in the political economy: that is, because it is seen to pursue national rather than sectoral interests.

In the Korean context, the changing role of the state can first be illustrated by the manner in which the state was able to regenerate the confidence of international lenders on behalf of the chaebols by linking domestic and international capital markets. For instance, it brought liquidity back into the financial system by agreeing to the IMF reforms in return for a resumption in lending from international financial institutions [*Haggard, Lim and Kim (HLK), 2003: 318*]. In a narrower sense, the state's regaining of legitimacy, and its exploitation of its enhanced structural power (along with the diminution of that of the chaebols) can be detected in the way in which the government oversaw the process of chaebol restructuring, which symbolised a break from the past – the passing, or at least radical reorganisation, of the chaebol system.

The next section of this article will provide more specific examples of how the Kim government implemented its agenda for a market economy in the post-crisis period. In particular, it will concentrate on two cases where the state reined in the power of the chaebols. In the first, the government sought to restructure a chaebol that was widely perceived to be poorly run (Daewoo) in order to demonstrate that Korea was committed to reform. The second case highlights the government's efforts to reduce excess capacity in particular industries by encouraging mergers and asset swaps (the proposed big deals involving Samsung Motor). This latter case also illustrates the visceral reaction of the chaebols to the reform agenda.

V. CHAEBOL REFORM: DAEWOO AND SAMSUNG

A clear indication that the developmental alliance between the state and the chaebols had changed was the handling of the Daewoo Group's bankruptcy in August 1999. Hitherto, the state had been reluctant to allow chaebols of Daewoo's scale to collapse due to the potential social and economic fallout. The Daewoo Group represented a particularly egregious case of corporate profligacy, even by the standards of the chaebols, with the group's owners

resorting to 'creative' accounting practices such as revaluing assets, accessing funds through NBFIs and issuing more equity [*D.G. Lee, 2003: Park, 2002: 76*]. Daewoo was the 'Korean model' writ small: it relied particularly heavily on overseas borrowing to fund its expansion, and its financial structure was weaker than most groups. A Seoul-based foreign banker was quoted as saying: 'The Daewoo Group did not have a project within the group that was earning money ... Naturally, it was forced to rely on foreign loans ... Daewoo's troubles with foreign financial institutions have worsened its financial woes' [*Yun, 1999: 267*].

The government's willingness publicly to criticise the group's slow progress in restructuring heightened Daewoo's predicament. Foreign investors on the lookout for joint venture partners in Korea took the government's negative prognosis of Daewoo's restructuring proposals as a suggestion that the group was unlikely to receive new capital injections on favourable terms, and that it might even be broken up [*C.-H. Lee, 1999: 262*]. According to one government official, Daewoo was the least active chaebol in putting forward a proposal to improve its own financial position, and it seemed to misread the government's determination to proceed with restructuring. Soon after the crisis, a number of groups published schedules to reduce their debt-to-equity ratios below the government's target of 200 per cent. Daewoo, in contrast, increased its debt in this period, with the total reaching 59.9 trillion won (about $51 billion) at the end of 1998 – 17.1 trillion won more than the previous year [*Yun, 1999: 268–72*]. It took Daewoo until early 1999 to realise that its survival was at stake. The government's warnings were far from subtle on occasions: the chairman of the FSC (and later finance minister), Lee Hun-jai, pointedly stated that Daewoo's leadership would be removed if restructuring did not proceed in a timely manner. On 19 April of that year, Daewoo's leadership announced a proposal to restructure itself that appeared to reflect all the government's demands – unlike its earlier attempts [*Lim, 1999: 219–20*].

It is likely that the government fully understood the salutary effect that Daewoo's bankruptcy would have on similarly recalcitrant chaebol owners. Thus, while the government would be both unlikely and unwilling to bear the consequences of a *series* of collapses on the same scale as Daewoo, it might have allowed a small number of other chaebols to go bankrupt. Other chaebol owners, not wanting to imperil the survival of their groups, heeded the lessons of Daewoo and made more substantive efforts to restructure their operations: by the end of 2000, 17 out of the top 30 chaebols had entered receivership or had undergone restructuring processes such as workouts [*Mo and Moon, 2003: 131–36*].

The Daewoo case illustrates the Kim government's pursuit of an initial goal of reform: the lowering of debt levels, which had great symbolic value

given the notoriously high levels of borrowing of the chaebols. Samsung Motor, meanwhile, shows how the chaebols responded to attempts to change other aspects of the chaebol system: the governance structures of Korean business groups, especially cross-subsidisation [*Lim, 1999: 224*]. The peak business lobby, the Federation of Korean Industry (FKI) defended this system by arguing that the chaebols – and the economy – grew rapidly by using profitable business units to subsidise the development of new, less profitable ones. The chaebols claimed that without this 'convoy system of business (*seondansik gyeong-yeong*)', which necessarily tied the fortunes of an entire business group together, it would not have been possible to invest resources in new industries [*C.-H. Lee, 1999: 257*].

In the case of Samsung, the electronics division had acted as the group's capital stream in the 1980s and 1990s, and provided the funds to enter the car industry. However a collapse in the price of semiconductors and electrical goods in 1995 and 1996 was to have an adverse effect on the financial structure of the entire group, especially in the wake of the cut-off of international lending during the financial crisis. The Kim Dae-jung government's prognosis of the 'chaebol problem' was that the practice of cross-subsidisation under the convoy system resulted in unprofitable business units dragging down entire chaebols and ultimately the national economy [*H.-K. Kim, 1998: 174*]. To the government, the Samsung case was a typical example of a profitable activity (electronics) subsidising an unprofitable one (cars) in an industry that suffered from overcapacity. Even worse, in the eyes of the Kim government, Samsung indicated an interest in taking over Kia, the fourth-biggest carmaker, which had collapsed in 1997 with debts totalling 12.8 trillion won. The government sought to dispose of Kia by selling it to foreign interests, because allowing one of the other established carmakers (Hyundai, Daewoo and Ssangyeong) to take over Kia would only perpetuate the overcapacity problem. Samsung Motor, which only began production in 1998 after spending billions of dollars building a car plant, applied to take over Kia; its rationale was that assuming Kia's production capacity would ensure Samsung's survival in the post-crisis period. The perpetuation of this type of logic – the 'too big to fail' mentality – was precisely what the government sought to avoid. It instead courted foreign interests without success during 1998 and the first half of 1999, while at the same time proposing that Samsung, as the newest entrant and most unprofitable producer, merge with Daewoo (whose group, as mentioned earlier, faced problems of its own). This proposal came to naught, as Samsung and Daewoo failed to agree on the terms of a merger. Samsung instead declared its motor division bankrupt on 30 June of that year, having produced only a small number of vehicles [*Yu, 1999: 256–57*]. It would later be revived in partnership with Renault.

Thus the Samsung case exemplifies the intent of the Kim government to rationalise industrial sectors that it perceived to be uncompetitive, despite its public pronouncements that the chaebols should entirely determine asset swaps and mergers [*Song, 1999: 96*]. Kang Bong-gyun hinted that reforming, not abolishing, the chaebol system was the goal of the reform agenda: 'The government doesn't want the chaebols to be broken up; it wants "changed chaebols"' [*Kwon, 2000: 67*]. Even if that involved the sale of key industrial assets to foreign interests, or their outright disposal, the government was intent on reform. Not only did ministers claim that foreign capital would accelerate the reforms launched in 1997, some in the government thought that FDI was essential if Korean financial institutions and conglomerates were to regain international competitiveness in the medium-to-long term [*The Economist, 2002: 79; H.-K. Kim, 1998: 176*]. Nonetheless, the Samsung Group, unlike Daewoo, was strong enough in its entirety to avoid being broken up. It is also worth noting that Samsung, despite its costly and ill-advised venture into the car industry, was generally better managed than Daewoo, so the loss of an industrial conglomerate such as Samsung would patently not be in the interests of the national economy. This may explain the differences between the government's handling of each case.

VI. THE END OF THE AFFAIR?

The Samsung case also showed that the chaebols were not powerless in their response to the reforms in the post-crisis era. Despite ceding a prized asset – its car-making unit, for which group chairman and chief shareholder Lee Keun-Hee had a personal, longstanding passion – Samsung avoided being dismembered like Daewoo. Indeed, it received a handsome reward in return for leaving the car industry: the group was given permission to list Samsung Life Insurance publicly at a price that delivered massive windfall gains to Lee and other key shareholders [*Yu, 1999: 258–59*]. Nonetheless, the government regained an influential position in the national political economy in the post-crisis period by harnessing the support of both domestic and external actors, and this entailed an overtly hostile approach to the chaebols, as illustrated in the Daewoo and Samsung cases. Now less dependent on the chaebols for its political survival, the state altered its policy mix to reflect the interests of a wider group of societal actors [*HLK, 2003: 311*], while faithfully implementing the neo-liberal reform agenda.

In order to muster support from the Korean public, the state reverted to a populist stance, that involved not just casting the chaebols as the villain in the piece, but also casting itself as a neutral, responsible, necessary – and thus legitimate – actor in the national economy. Despite expectations in some quarters that Kim Dae-jung would find common cause with trade unions, his

natural constituency was the middle classes; the Tripartite Commission notwithstanding, the government's political strategy was to reach over the heads of the unions and directly to the public for support. In one of his first public statements after winning the December 1997 election, the president stated that job losses would be inevitable. As Lee Kyu-seong would later comment, 'I think that the public must understand that reducing employment by 10–20 per cent through restructuring is a way to prevent a situation where 100 per cent of jobs are lost to unemployment in the future' [*Song, 1999: 91*]. The middle classes, who were less likely to be directly affected by layoffs, had traditionally distrusted trade unions, and felt that militancy was inappropriate during a national crisis. Moreover, this section of the public was wary of any party that appeared to share the chaebols' opposition to reform. The state capitalised on the anti-chaebol sentiment to paint striking workers as anti-reform, and by implication, as working in the interests of the chaebols and against those of the country as a whole.

The chaebols responded to the charge that they, and by implication the chaebol system, were responsible for the crisis with a propaganda offensive of their own. For example Daewoo chairman Kim Woo Choong claimed in a speech soon after the crisis broke out that there was nothing wrong with the chaebol system: 'If the big business system is not preserved, in the twenty-first century our country's capitalist system will be in danger' [*Yun, 1999: 274*]. In a separate presentation, he blamed external forces for the crisis, arguing that:

> advanced countries intend to take over our domestic market and eliminate Korean big business, who are their competitors... Despite the creation of large firms through M&As being a recent trend amongst the world's companies, only in our country is big business the subject of criticism... it is wrong to unconditionally condemn big business as the culprit of the economic crisis' [*Yun, 1999: 274*].

Former FKI president Sohn Byung-doo reinforced the message that the chaebols were not solely responsible for the crisis, saying 'wasn't the main cause [of the crisis] sheeted home to just the excessive investments of the chaebols? ...There is a clear responsibility on the chaebols but they were not the [sole] culprits'. He claimed that the chaebols have contributed significantly to the advanced industrial society that is modern Korea: 'Aren't firms the driving force behind the creation of national wealth? ...Our society has accepted the free market economy system and enjoyed its benefits but we don't seem to really understand its strengths and blessings' [*N. Lee, 2003: 223*]. Likewise, an FKI advisor warned the government not to adopt a populist stance, arguing that 'The government is

trying to pursue chaebol reform by exposing the immorality of the chaebols and [presenting] a negative image of their leaders. If the government ... denounces the chaebols as the object for reform, it might be popular in the beginning but it will ultimately be a meaningless policy' [*C.-H. Lee, 1999: 256–57*]. The FKI would later warn that the strength of anti-business sentiment, which has long permeated Korean society due to the Confucian disdain for entrepreneurship, is detrimental to the normal operations of business [*Seo, 2004*].

The mutual antagonism between the government and business in the Daewoo and Samsung cases has resulted in less cooperation in the post-crisis period – a development of historical significance given that close collaboration between these parties has been a hallmark of the Korean model of development. The chaebols have been particularly disturbed by the government's taking unilateral action – that is, its reassertion of leadership in respect to the policy agenda. Whereas in previous decades the chaebols had substantial input into the policy-making process, their leaders began to complain that they were unable to respond to the government's reform agenda because they were unsure of its aim and extent, and that they had no clear line of communication with the government. To the chaebols, 'talks' were merely meant to make official the government's policy, so there was no sense of mutual trust [*Y.-G. Kim, 1999*].

Further, the chaebols felt that the government was interfering in matters that should be left to the private sector to decide, most notably decisions about mergers and asset swaps. Indeed, the Kim government's three senior economic officials have claimed the right to intervene selectively. It is the duty of the government to provide leadership in cases where, in the words of Kang Bong-gyun, 'autonomously managed systems and traditions are not in place' [*Kwon, 2000: 77*], such as the selection of a new FKI chairman to replace Kim Woo Choong, who resigned following the collapse of Daewoo. Similarly, Lee Hun-jai believes *in principle* that market forces should operate, but only on the pre-condition that the market operates smoothly [*H.-K. Kim, 1998: 176*]. The Kim government appropriated the right to decide when this was the case. And Lee Kyu-seong claims that it is inappropriate for the state to interfere illegally in the restructuring process or in forcing banks to raise interest rates, but 'we are in a crisis situation where the autonomous market mechanism is broken, so it is impossible to fly with instruments and we have no choice but to rely on sight' [*K.-H. Kim, 1998: 172*]. The interventionist streak evident in these comments indicates that some elements of the Korean developmental state remain alongside the neo-liberal reform agenda – a combination unsettling for the chaebols.

The message of the chaebols in the post-crisis era was that the government could not be trusted: not only were the policies it announced detrimental to the national economy, the chaebols claimed; the government was also determined to destroy the chaebol system, which had served Korea well. An advisor to the FKI said that despite the myriad rationales provided for chaebol reform, they amounted to a project that would end the chaebol system as we know it: 'The government claims to be in favour of chaebol reform, not the break up of the chaebols. However if all the policies that the government has suggested are implemented, the chaebols will be broken up ... the government is just using the expression of reform' [*C.-H. Lee, 1999: 254*]. Trust was also eroded due to broken promises. Sohn Byung-doo complained that the government's approach to the big deal process was seriously flawed, with few of the promises initially made being kept. For instance, the government, Sohn claimed, promised a wide range of taxation and financial assistance to the chaebols, as well as support for the chaebols' efforts to downsize their workforces. 'But once things started, the government abrogated responsibility for [this] model of assistance, and they said that credit would be decided through a conference with the financial delegation, and they kept on dragging their feet' [*N. Lee, 2003: 226*].

Further, the chaebols resented the Kim government's use of coercive measures, such as the setting of timetables for compliance with restructuring; the government threatened to investigate non-compliers on the grounds of crimes such as selling shares illegally and fixing the price of shares [*Lim, 1999: 225*]. Officials such as Kang Bong-gyun came in for strong criticism from the FKI for underhand tactics: 'although the government talks about negotiations, it interferes through telephone messages and directives. Since there is potential for problems to develop in the future, they don't want to document anything [now]'. The government also stood accused of intimidating business leaders: 'is it negotiating to haul business leaders in front of the president and tell them to sign an agreement? ...The leaders of the top-five chaebols are not saying anything and trembling in front of the president; would they even dream of resisting? This is close to a reign of terror' [*C.-H. Lee, 1999: 255–56*].

VII. CONCLUSION

This article has focused on the way in which the IMF reforms represented an opportunity for political and economic elites within the Kim government to *strengthen* their standing *vis-à-vis* other actors, especially the chaebols. The state proved to be capable of facilitating the process of industrial and financial restructuring that was required as a condition for the emergency

loans. As such, the state operated in accordance to a markedly different template – part populism, part neo-liberalism – to that of the early stages of economic development.

Since the crisis, the success of the reforms – and the state's bid to regain legitimacy in the political economy – also benefited from the Kim government's ability to capitalise on the public's sense of outrage at the excesses of the chaebols and their culpability in the outbreak of the crisis. That is, the legitimacy that was restored to the state stemmed from two sources: the external support of the US and the IFIs for implementing the neo-liberal agenda, and also domestic groups other than the chaebols. The government was more than willing to capitalise on the perception that the chaebols were responsible for bringing the economic crisis to the country due to their reckless lending and expansion. Thus the state gained public support for reining in, rather than nurturing, the chaebols – in contrast to the initial stages of economic development.

Yet the latent capacity of the chaebols to influence policy-making due to their structural position in the economy should not be underestimated. The observation has been made that the 'too big to fail' mentality has largely – perhaps even totally – disappeared in the wake of the collapse of Daewoo and several smaller chaebols [*Na, 2003: 297–98; Song, 1999: 97; Yun, 1999: 274*]. The danger remains that investment will not return to previous levels, with deleterious effects on production and employment. Demand is weak, and the rate of credit delinquency is hitting new highs, accentuating the need for new investment [*C.-S. Lee, 2004*]. Business leaders have warned that the measures proffered by the government in the post-crisis period would not deliver a recovery in investment; the chaebols would have preferred new injections of capital rather than coercive restructuring [*N. Lee, 2003: 226*]. It remains to be seen whether Korean firms' recent surge in foreign investment – especially in China – continues, or whether the state is capable of inducing renewed investment in the domestic economy.

There are also concerns that the relaxation of barriers to foreign investment has weakened the long-term growth potential of the economy. The penetration of foreign capital has been far from insignificant: as at early 2002, foreigners owned 36.2 per cent of listed stock in Korea, and a majority of shares in leading firms such as Samsung Electronics, POSCO and Hyundai Motors [*Crotty and Lee, 2002: 673–76*]. Others [*such as Yun, 2003: 237–39*] agree with the government's rationale for inducing investment – that it has benefited Korea by introducing new technology and managerial practices, and has thus facilitated the process of restructuring the chaebols. Foreign capital has even challenged the chaebols' practice of cross-subsidisation in the courts, as the case of Sovereign Asset Management and SK Corp has illustrated [*The Economist, 2004: 60–61*].

The state sought a renewed mandate in the post-crisis period, and it played a vital role in Korea's economic recovery, as this article has noted. Yet in doing so, it may have dealt a fatal blow to business confidence, with grave implications for the long-term prospects of the national economy. The Kim government's successor – which includes some of Kim Dae-jung's senior ministers, such as Lee Hun-jai – faces the challenge of simultaneously satisfying the disparate interests of the chaebols, labour and foreign investors. The revival of a cooperative relationship with chaebol leaders will be crucial to the economy's wellbeing.

NOTES

1. In this article 'Korea' refers to the Republic of Korea (the ROK or South Korea).
2. This article adopts the Korean government's official system of Romanisation (Ministry of Culture and Tourism proclamation 2000-08, http://www.mct.go.kr:8080/english/K_about/Language04.html). The new system permits the use of terms such as 'chaebol' (rather than 'jaebeol') – the family-owned conglomerates that have dominated the Korean economy – since such terms have become widely used in Korean Studies, and to alter their Romanisation would only create unnecessary confusion.
3. Refer to the article by Mark Beeson and Iyanatul Islam in this volume for a more complete explanation of the Washington consensus.

REFERENCES

Amsden, A.H., 1989, *Asia's Next Giant: South Korea and Late Industrialization*, Oxford: Oxford University Press.

Amsden, A.H., 1990, 'Third World Industrialization: "Global Fordism" or a New Model?', *New Left Review*, No.182.

Block, F., 1986, 'Political Choice and the Multiple "Logics" of Capital', *Theory and Society*, Vol.15, Nos. 1–2.

Bu, J.-Y. and W.-J. Jang, 1998, 'IMF neomu geokjeong-haji maseyo. Dokil-gwa Ilbon-i Yeongkuk-eul neomeosseoyo [Don't worry too much about the IMF [financial crisis]. Germany and Japan overtook the UK]', *Wolgan Chosun*, June.

Bustelo, P., 2000, 'South Korea in 1997–98: a critical view of the financial crisis and the IMF remedies', H. Henke *et al.* (eds.), in *The End of the 'Asian Model'?*, Amsterdam: John Benjamins.

Chang, H.-J., 1998a, 'Korea: the Misunderstood Crisis', *World Development*, Vol.26, No.8.

Chang, H.-J., 1998b, 'South Korea: Anatomy of a Crisis', *Current History*, December.

Chang, H.-J., Park, H.-J. and C.G. Yoo, 1998, 'Interpreting the Korean Crisis: Financial Liberalisation, Industrial Policy and Corporate Governance', *Cambridge Journal of Economics*, Vol.22, No.6.

Choi, J.W., 2002, 'Regulatory Forbearance and Financial Crisis in South Korea', *Asian Survey*, Vol.42, No.2.

Choong, Y.A., 2001, 'Financial and Corporate Sector Restructuring in South Korea: Accomplishments and Unfinished Agenda', *Japanese Economic Review*, Vol.52, No.4.

Crotty, J. and K.-K. Lee, 2002, 'A Political-economic Analysis of the Failure of Neo-liberal Restructuring in Post-crisis Korea', *Cambridge Journal of Economics*, Vol.26, No.5.

Cumings, B., 1998, 'The Korean Crisis and the End of "Late" Development', *New Left Review*, No.231.

The Economist, 2002, 'One Step Forward, One Step Back', 4 May.
The Economist, 2004, 'A Sovereign Remedy?', 28 Feb.
Feldstein, M., 1998, 'Refocusing the IMF', *Foreign Affairs*, Vol.77, No.2.
Haggard, S., 2000, *The Political Economy of the Asian Financial Crisis*, Washington: Institute of International Economics.
Haggard, S., Lim, W. and E. Kim, 2003, 'Conclusion: Whither the Chaebol?', in S. Haggard *et al.* (eds.), *Economic Crisis and Corporate Restructuring in Korea*, Cambridge: Cambridge University Press.
Henderson, J., 1993, 'Against the Economic Orthodoxy: on the Making of the East Asian Miracle', *Economy and Society*, Vol.22, No.2.
Kim, D.-J., 1997, 'Kim Dae-jung Daetongryeong gija hoegyeonmun yoji [Main points from press conference with President Kim Dae-jung]', Official Kim Dae-jung website (http://www.djroad.com/): accessed 16 March 2004.
Kim, E.M., 1997, *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960–1990*, Albany: State University of New York Press.
Kim, E.M., 1999, 'Crisis of the Developmental State in South Korea', *Asian Perspective*, Vol.23, No.2.
Kim, H.-K., 1998, 'Seokusik-eul ddaraya sanda [We must follow the Western style to survive]', *Wolgan Chosun*, August.
Kim, J.-H., 2000, 'Jaemubu chulsin janggwan-ui deungjang-e Gihoekwon chulsin-deul ginjang [Former EPB officials concerned at the emergence of MOF officers]', *Wolgan Chosun*, April.
Kim, K.-H., 1998, 'Jayuljeok sijang gineung-i pagoe-doen sanghwang [A case where an independent market mechanism had collapsed]', *Wolgan Chosun*, August.
Kim, S.-J., 1998, 'IMF gujae geumyung-gwa Hanguk gyeongje: sinjayujuuijeok jaepyeon-e daehan dae-eung jeolliyak [The IMF emergency loan and the Korean economy: responses to neo-liberal reforms]', *Gyeongje-wha Sahoe*, No.37.
Kim, Y.-G., 1999, 'Komin-haneun chaebol [The worrying chaebols]', *Segye Ilbo*, 21 Aug.
Kim, Y.H., 2002, *Imja, jane-ga saryeonggwan aninga [Aren't you an Officer?]*, Seoul: Maeil Gyeongje Sinmunsa.
Kwon, S.-H. and M. O'Donnell, 1999, 'Repression and Struggle the State, the Chaebol and Independent Trade Unions in South Korea', *Journal of Industrial Relations*, Vol.41, No.2.
Kwon, Y.-K., 2000, 'Kang Bong-gyun, Jaejeong Gyeongjebu Jangkwan [Kang Bong-gyun, Minister for Finance and Economy]', *Wolgan Chosun*, January.
Lee, C.-S., 2004, 'Fallacy of Image Politics', *Korea Times*, 31 March.
Lee, C.-H., 1999, 'Chaebol vs ban-chaebol 10gaji haeksim jaengjeom [10 main issues in the chaebol vs. anti-chaebol debate]', *Shindonga*, September.
Lee, D.G., 2003, 'The Restructuring of Daewoo', in S. Haggard *et al.* (eds.), *Economic Crisis and Corporate Restructuring in Korea*, Cambridge: Cambridge University Press.
Lee, N., 2003, 'DJ jeongkwon, big deal yaksok an jikyeotdda [DJ government did not keep its promise about big deals]', *Shindonga*, March.
Lim, G.-J., 1999, 'DJ, neungnyeok eobneun chaebol chongsu tocchul-sikinda [DJ forces out incompetent chaebol leaders]', *Shindonga*, September.
Mo, J. and C.-I. Moon, 2003, 'Business-government Relations under Kim Dae-jung', in S. Haggard *et al.* (eds.), *Economic Crisis and Corporate Restructuring in Korea*, Cambridge: Cambridge University Press.
Na, S.-L., 2003, 'Ochwan wigi dolpa-en seongkong, gukka-gagye buchae-neun sihan poktan [Success in overcoming foreign exchange crisis, [creating] a time-bomb for public and private debt]', *Shindonga*, February.
No, C.-B., Lee, S.-H. Jeong, J.-S. and Y.-S. Choe (eds.), 2002, *Hanguk jeongchi-ui ihae* [Understanding Korean politics], 1st edn., Seoul: Hyungseul Publishing.
Park, F. and Y.-B. Park, 2000, 'Changing Approaches to Employment Relations in South Korea', in G.J. Bamber *et al.* (eds.), *Employment Relations in the Asia Pacific: Changing Approaches*, St. Leonards, Australia: Allen and Unwin.
Park, H.J., 2002, 'After Dirigisme: Globalization, Democratization, the Still Faulted State and its Social Discontent in Korea', *Pacific Review*, Vol.15, No.2.

Radelet, S. and J. Sachs, 1998, *The Onset of the East Asian Financial Crisis*. Cambridge: Harvard Institute for International Development.

Shin, D., 2000. 'Dual Sources of the South Korean Economic Crisis: Institutional and Organisational Failures and the Structural Transformation of the Economy', in F.J. Richter (ed.), *The East Asian Development Model: Economic Growth, Institutional Failure and the Aftermath of the Crisis*, New York: St. Martin's Press.

Seabrooke, L., 2002. *Bringing Legitimacy back in to Neo-Weberian State Theory and International Relations*. Canberra: Department of International Relations, Australian National University.

Seo, J.-Y., 2004, 'FKI Eager to Resolve Anti-Business Sentiment', *Korea Times*, 5 April.

Song, Y.-M., 1999, '10–20% gamwon-haeya modu sanda [10–20 per cent [of personnel] must be cut to save all]', *Wolgan Chosun*, April.

Wade, R., 1990, *Governing the Market: Economic Theory and the Role of the Government in East Asian Industrialization*, Princeton: Princeton University Press.

Wade, R., 1998. 'The Asian Debt and Development Crisis of 1997–?: Causes and Consequences', *World Development*, Vol.26, No.8.

Weiss, L., 2003, 'Guiding Globalisation in East Asia: New Roles for old Developmental States', in L. Weiss (ed.), *States in the Global Economy: Bringing Domestic Institutions Back in*. New York: Cambridge University Press.

Weiss, L. and J.M. Hobson, 2000, 'State Power and Economic Strength Revisited: what's so Special About the Asian Crisis?', in R. Robison *et al.* (eds.), *Politics and Markets in the Wake of the Asian Crisis*. New York: Routledge.

Williamson, J., 2000. 'What Should the Bank Think about the Washington Consensus?'. *World Bank Research Observer*, Vol.15, No.2.

Yoon, H.-S., Kim, Y.-R. and W.-B. Lee, 2003, *Hanguk jeongchi eotteoke pol keot inga* [Understanding Korean politics], 1st edn., Seoul, Korea: Pakyoungsa Publishing.

Yu, Y.-E., 1999, 'Samsung-Cha mollak-ui drama [The drama of Samsung Motor's collapse]', *Shindonga*, August.

Yun, M., 2003. 'Foreign Direct Investment and Corporate Restructuring after the Crisis', in S. Haggard *et al.* (eds.), *Economic Crisis and Corporate Restructuring in Korea*, Cambridge: Cambridge University Press.

Yun, Y.-H., 1999, 'Muneojin Daewoo sinhwa, hacbeob-eun momtong palgi? [The collapsed myth of Daewoo: is the solution to sell its heart?]', *Shindonga*, June.

The Politics of State Sector Reforms in Vietnam: Contested Agendas and Uncertain Trajectories

MARTIN PAINTER

1. INTRODUCTION

The 1997 Asian financial crisis came as a wake-up call to Vietnam's Communist Party elite. While the immediate impact was not dramatic, largely because Vietnam's currency was not traded, the subsequent regional slow-down did lead to a decline in the growth rate from near ten per cent to approximately five per cent, a sharp reduction in the level of foreign direct investment (FDI) commitments and looming fiscal and balance of payments problems [*IMF, 1999: 5; IMF, 2002: 6*]. The Government as a result felt moved to seek additional assistance from the IMF. At the same time, new vigour was added to an ongoing domestic political debate over the direction of economic reform, or '*doi moi*' (renovation).

Doi moi, launched in 1986, resulted in dismantling most of the instruments of the command and control economy and an 'open door

Professor Martin Painter, Department of Public and Social Administration, City University of Hong Kong, 88 Tat Chee Avenue, Kowloon, Hong Kong. E-mail: samartin@cityu.edu.hk.
Research for this article was supported by City University of Hong Kong Research Grant Project 7100218. Thanks are due to an anonymous reviewer for *The Journal of Development Studies*.

policy' – encouragement of FDI and overseas development aid (ODA) and lowering of trade barriers. The result seemed to be an economic success story. A crisis of spiralling inflation was surmounted and longer term growth was delivered. Annual growth in exports averaged close to 30 per cent in the first half of the 1990s, and FDI reached over US$2 billion in 1995. ODA grew steadily, providing an important source of financing for much needed infrastructure. While *doi moi* seemed to deliver much needed growth and development, the Asian financial crisis aroused some of the worst fears of the doubters, including the risks of placing the country at the mercy of the IMF.[1] The IMF's diagnosis and remedy were predictable, blaming the 'sharp deterioration' in economic performance on 'domestic structural weaknesses compounded by the impact of the regional crisis', and calling for the Government to 'speed up structural reforms, especially in the banking, SOE (State Owned Enterprise) and trade areas...' [*IMF, 1999: 4*]. But just as the International Financial Institutions (IFIs) demanded an 'accelerated *doi moi*', the party elite was riven with conflict, with forces opposed to the reform agenda calling for a reassessment [*Abuza, 2001: 5–7; Thayer, 2001: 185–6*]. The outcome of this conflict, during which the implementation of *doi moi* seemed to stall, was in fact a much strengthened commitment to reform. During 2000 and 2001 the Government took a number of major steps: a trade agreement with the US; announcement of the intention to join the World Trade Organisation (WTO); implementation of significant new tariff reductions; re-affirmation at the 9th Party Congress of the principles of market reform, and proposals for more determined implementation; a Letter of Intent accepting IMF funds and committing Vietnam to reform milestones; and a strengthened Public Administration Reform (PAR) programme, including downsizing and deregulation.

In sum, the regional crisis brought to the surface and seemingly resolved underlying domestic cleavages and tensions that had been generated by over a decade of economic reform. In particular, it might seem that the Government of Vietnam had opened the doors to a long-term process of penetration by models of development projected by the IFIs. Neo-liberalism at first glance seemed to be triumphant, or at least in the ascendancy. However, before jumping to this conclusion, a closer look must be taken at the content and meaning of both 'neo-liberalism' and 'reform' in the Vietnamese context. In addition, the argument that the external influences are dictating the pace and direction of domestic reform needs to be placed in a wider context of debates about state autonomy. The next three sections address these issues, before turning to closer analysis of domestic, political dimensions of the reform process in Vietnam. I argue that Vietnam's development strategies, including

marketisation, are strongly influenced by models other than neo-liberalism, and follow a trajectory of their own; that the selection and adoption of particular neo-liberal reforms in the face of external pressures must be understood as a domestic political process in which the state seeks to shore up its authority while accommodating emerging state–business alliances; and that these propositions are no better illustrated than by the strategic approach adopted by the Vietnamese party-state centre to overseas development aid which seeks to encourage economic reform.

II. NEO-LIBERALISM AND VIETNAM'S DEVELOPMENT STRATEGIES

Neo-liberalism as a set of economic policy prescriptions aims to free up domestic markets and speed integration with the global capitalist economy. These prescriptions have been most in evidence in the 'structural adjustment' policies of IFIs, imposed on states which descend into fiscal crisis. In those cases, a strong emphasis is given to reducing government expenditures and on privatisation. In 'transition' economies, where the IFIs are also active, stress is placed as well on building market-supporting institutions, such as the rule of law. Developing such institutions became an increasingly strong focus of donors such as the World Bank and the IMF in all developing countries in the 1990s, under the broad heading of 'governance' reforms.

This emphasis owes something to the growing perception that the 'Asian miracle' rested in part on the efforts of strong, effective states in sponsoring and supporting profits and growth. However, despite this concession, under the so-called 'post-Washington consensus' [*Jayasuriya and Rosser, 1999: 388–92*], the thrust of governance thinking within the neo-liberal paradigm has been more to advocate state institutions that mirror a minimalist, liberal state: frameworks of rules and systems of transparency and accountability, rather than mechanisms for democratic control and positive intervention in the economy [*Beeson, 2001: 483–7*]. Kanishka Jayasuriya [*2002*] sees the evolution of governance programmes under the World Bank and IMF as recently entering a third stage, that of the 'managerial civil society' in which partnerships, social inclusion and social contracts are constructed through social safety net programmes and social funds. Thus, the goals attached to the IFIs' Poverty Reduction and Growth Strategy (PRGS) loans seek to bring together programmes of structural adjustment, market strengthening and pro-poor social engineering in one package.

I argue in this article that these tendencies in IFI rationales and models have not been unwelcome to many of Vietnam's policy-makers, who have

been trying since the inception of *doi moi* to evolve their own 'market socialist' trajectory of development within a statist framework. Neo-liberalism, it would seem, has been made less threatening, at least as it is manifested in the rhetoric and content of international development assistance.[2] Vietnam's economic development strategy within the framework of *doi moi* has always been a mix of selected 'statist' and neo-liberal recipes, as defined above. Alexander Woodside [*1999: 36*] has argued that Vietnam's self-conscious latecomer status among Asian industrialising nations predisposes it to 'the necessity for a strong state, in which is vested the power to choose the right latecomer options'. Accompanying the rhetoric of market reform, there is a strong reliance on the export potential of a large SOE sector along with high levels of public investment in infrastructure and industry development. The Ten Year Plan of 2001 stressed the state sector's 'leading role in the economy' [*CPV, 2000*]. While tariff and trade reforms have exceeded IMF expectations [*IMF, 2002: 9–11; World Bank, 2002b: 14–5*], measures remain in place to nurture strategic domestic industries. In the midst of the financial crisis, Vietnam successfully deployed a number of interventionist measures that included 'soft' loans and tax breaks for SOEs [*Tran Van Son, 2000: 9–10*] and restrictions on imports [*Masina, 2002: 209–10*]. Vietnam's approach thus echoes the historical model of the Asian developmental state and has parallels with the contemporary exemplar of China, to which some of Vietnam's leaders pay close attention [*Abrami, 2003: 99–100; Tonnesson, 2001: 189–91; Zhu, 2003:157–9*].

But the reform strategy includes a set of initiatives to build market institutions and to aid the development of private business. Despite the continued complaints from foreign businesses over a bewildering array of bureaucratic obstacles, the official policy welcomes and encourages foreign direct investment, for example through enterprise zones where special conditions apply that facilitate development. A steady programme of legal reform has seen the introduction of laws that aim to ease business transactions, one of the most significant being the re-written Enterprise Law of 2000 [*Arkadie and Mallon, 2003: 109; 164–9*]. By the end of 2002, some 56,000 enterprises had been newly registered under this law [*Tenev et al, 2003, 2*]. Other prominent examples of measures intended to speed marketisation are the Land Law, the Law on Financial Institutions and the Law on Foreign Investment, each of them significantly re-written during the 1990s with a view to facilitating private enterprise. Between 1995 and 2000, the share of output by the non-state sector grew from 50 per cent to 58 per cent [*Arkadie and Mallon, 2003: 116–7*]. Private industrial output showed growth rates of around 20 per cent in each of the years 2000–2002 [*Tenev et al. 2003, 2*].

III. INTEGRATION AND AUTONOMY

As Vietnam absorbs the demands and pressures of economic integration, aid dependency and international trade negotiations, will these domestic growth strategies remain viable? How best can we assess the effects of this meeting between a set of distinctive national policies and a global neo-liberal programme that, in many respects, challenges that trajectory? The logic of economic integration into the global capitalist economy potentially constrains domestic policy choices in a number of ways, for example through the need to avoid capital flight and the requirements imposed by trade regimes such as the WTO [*Weiss, 2003: 5–10*]. Vietnam's vulnerability in these contexts may be even the greater, it being a poor, developing nation with ambitious growth targets. The receptivity to ODA in these circumstances brings with it the jeopardy of growing aid dependency. Outside technical assistance and policy advice may have potentially unwelcome effects. Foreign advisers are to be found in government agencies across Vietnam implementing programmes that reflect similar, if not identical, donor views of the world. The constant exposure to more or less uniform models of 'best practice' aids the diffusion of such apparently consensual, global reform models [*Larmour, 2002: 250–2*]. A more direct form of influence resulting from aid dependency is in the shape of the terms and conditions attached to grants and loans.

Many arguments about national vulnerabilities in the face of such external influences take an 'outside-in' perspective, treating local state actors as more or less passive recipients or victims. But the approach taken here is an 'inside-out' one, which stresses the potential significance of active choices made by state actors, the varying effects of globalisation on different interest groups and the variety of domestic and non-domestic pressures that bear on state policy decisions.[3] This analytical approach is outlined in the next section, which uses a 'state in society' perspective to argue that the processes of marketisation and integration have constituted new political interests and generated new problems of state management and legitimacy in Vietnam. Only from an understanding of these domestic political forces and strategies can we gain an appreciation of the manner in which external influences are contested and mediated. This is particularly the case when we try to understand relations with the various international institutions that have made their presence felt during the process of integration. Particular attention is focused here on international aid and its impact. I argue that, in the Vietnamese context, outside resources and ideas are both appropriated for domestic purposes and, in the process, transformed to support alternative outcomes to those that might be expected. In seeking to unravel these interactions between 'inside and outside', examples will be drawn mainly from the area of SOE reform. This focus on the state business sector is

supplemented in the next section by a brief discussion of developments within the private sector, with a view to delineating the complex constellations of interests emerging within the realm of economic reform more broadly. The issue of SOE reform, however, is central to the neo-liberal project in transition economies, and there is no better example of an issue over which domestic economic interests and those purportedly represented by neo-liberalism come into conflict. The capacity of the Vietnamese government to manage the outcomes of this reform process is a key test of the manner in which domestic interests are shaping the trajectory of economic reform.

IV. THE VIETNAMESE STATE AND THE POLITICS OF 'REFORM'

Economic reform is concerned with changing the rules under which economic actors go about their business. In contemporary debate and analysis of such reform, so dominant is neo-liberalism as an economic policy paradigm that it has colonised the very word 'reform' to the point where liberalisation lays sole claim to that label [*Tonnesson, 2001: 172–3*]. *Doi moi* is a liberalisation process, but to point this out tells us very little. For the points of political contention are not simply formal changes to abstract sets of market rules, but the restructuring of concrete opportunities for acquiring power and wealth in a particular historical and institutional context. Economic reform is a contested political process, and 'liberalisation' has acquired distinctive local meanings and produced contradictory results.

From this perspective, we need also to be wary of considering economic reform as simply a 'steering' activity by high level state actors who make strategic choices based upon expert advice. In Vietnam, there is a strong presumption that reform is a 'top down' process of command and control. Official party ideology insists on the veracity of the image of coherent, unified party leadership and state management. Under the norms and practices of democratic centralism, the party demands (and normally obtains) a monopoly of the formal processes of political mobilisation, representation and decision making. Moreover, there is a predisposition towards technocratic modes of policy making, with a plethora of research institutes and well trained economic experts undertaking analysis and advice that feeds very immediately into top policy making circles.

However, there are contrary indications to this image as an accurate representation of the political process of economic reform [*Gainsborough, 2003b: 104–9*]. For example, a noticeable feature of the reform process in Vietnam is 'fence breaking', by which 'reform' follows on after local actors first break the rules, coupled with a strong propensity to permit local experiments and to label them 'pilot projects'. The image of top-down

decision making conceals not only a complex process of elite consensus-building which seeks to be politically inclusive, but also a high level of sensitivity to local demands and protests. Both of these features are evidence of the centre's domestic vulnerability as much as its strength. Migdal's view of the state as a set of institutions embedded in and inter-penetrating wider social and political groups and institutions is a useful perspective in this context [*Migdal, 2001: 15–22; 110–34*]. He proposes a distinction between on the one hand 'images' of the state, which stress its coherence and unity, and on the other 'the contradictory practices and alliances of its disparate parts' [*Migdal, 2001: 15–16, 22*]. Rather than a top-down hierarchical order, this kind of state is a set of interactions and negotiations between state actors, as well as with non-state institutions, communities, groups and individuals [*Kerkvliet, 2001: 239–40*].

Vietnam is governed through a highly decentralised, fragmented and sometimes incoherent set of state institutions. There is a chronic problem from the party-state centre's point of view of 'unimplementability' [*Fforde, 1998: 30–32*].[4] Party-state control is, on the surface, comprehensive, but the instruments to achieve many central party-state purposes are weak. Administrative structures in both central government and provincial governments tend to be structurally fragmented, with flat hierarchies and relatively weak centres. A number of institutional traditions and norms, such as 'double subordination' (where local line units are under both local general purpose control and central line management) and a strong tradition of 'self sufficiency' (bred in part by resource scarcity and the need to rely on local initiative to fill the gap) reinforce this disjointedness [*RIAP, 2001: 178–9*]. Increasingly, centrally provided funds are insufficient to cover mandated local spending needs, leading agencies at the periphery to resort to a variety of their own fees and charges [*World Bank, 2000: 22–3, 54, 63–4*] and to seek out revenue from locally sponsored economic activities. These activities enhance local autonomy and weaken the centre. There is an increasing level of fiscal and administrative decentralisation as demands for expenditure have grown but central tax capacities have not kept pace [*Fritzen, 2000: 68–77; World Bank, 2002b: 85*].

On top of these fragmenting forces, the loosening of the Soviet-style administrative controls of the command economy from the 1980s on set in train a process of 'power scattering' [*Vasavakul, 1996: 44–48; Gainsborough, 2002: 360*]. Effectively, state production units and the line bureaucrats who controlled them took advantage of the relaxation of controls and the commercial opportunities of the market to acquire assets and accrue power and wealth. Some local governments began to operate independently in attracting foreign investment and doing deals. A 'state business interest', with strong roots in provincial and local state and party circles, emerged as a

powerful political force [*Beresford, 2001: 226–9; Fforde, 1993: 308–12; Gainsborough, 2003a: 72*]. Many factions emerged within this broad 'state–business bloc': local governments and branches of central ministries used their new freedoms as SOE owners to generate 'off-budget' income, and managers of SOEs used them to accumulate profits and appropriate wealth. Among these 'bureaucrat businessmen', varying interests and circumstances created conflicting perspectives on the daily practices of party control and administrative enforcement. A set of state–business relations evolved that was closely inter-connected with existing party and state patronage systems. Signs of 'money politics' emerged, including large scale corruption within the ranks of the party. This new set of political claims and fault lines within the party-state had serious implications for intra-party conflict management.

Another dimension to this 'power scattering' was through the growth of the private sector and the manner in which it related to the state. The nature of the private sector in Vietnam owes much to the fact that large parts of it emerged from within the state, or at its fringes. Market-like institutions and relationships in Vietnam evolved informally within the shell of the command economy before 1986. Subsequently, the same informality was evident in the way bureaucratic entrepreneurs explored the opportunities provided by growing economic freedoms. This high level of informality is characteristic of the private sector and market relations in Vietnam. The informal sector or 'shadow economy' as conventionally defined, where the formal rules and regulatory powers of the state do not reach, comprises about 50 per cent of the total economy. The household and small business sectors, which comprise the fastest growing part of the economy, operate by and large informally. One estimate is that half of the take-home pay of public employees derives from their involvement in the informal cash economy [*Tenev et al., 2003: 14–6; Painter, 2004*].[5] Where business comes into direct contact with state organs (regulation, taxation, registration and licensing, loans from state banks and so on), the gaps in administrative infrastructure (for example in the tax collection bureaucracy) not only make it difficult to achieve consistency and regularity of enforcement, but also at the same time encourage 'rent-seeking' behaviour. This, in turn, reinforces informality. The rules perform the function of providing some public officials with the leverage to make connections with private business for their own profit and advantage – deals over tax assessment, for example. Most private entrepreneurs cannot do business without entering into such non-formal relations with state officials, for example by paying bribes [*Tenev et al.: 35–7*].

Thus, the level of support for or opposition to the official programme of economic reforms by diverse kinds of emerging business interests was unpredictable and depended on circumstances. A powerful undertow in the policy reform process in the 1990s, for example, was produced as a result of

the defensive stance among many managers and bureaucrats with a stake in state business enterprises, who opposed reforms that would undermine their protected status, or even deny them the control of the assets that they had already effectively appropriated. At the same time, greater access to FDI and joint venture opportunities, along with loosening up of state regulations governing such activities, were welcome to many state business entrepreneurs. Fforde [*2002: 372–3*] argues that by the end of the 1990s, many entrepreneurs and managers had acquired sufficient power and confidence that they no longer viewed state protection and ownership as the best shell for accumulation, thereby creating a growing political coalition in support of accelerated marketisation of SOEs and other structural reforms. As to private entrepreneurs, while the majority, in response to questions in a survey, might complain about 'red tape' and bureaucratic corruption, many at the same time are highly dependent upon informal connections with state actors for essential resources (such as land or bank loans), and thus have ambiguous views about economic reforms that are intended to bring a more transparent set of rules and a more 'by the book' style of administration and enforcement. Their connections provide a competitive advantage that they might not be able to substitute. Complex alliances among both state and non-state actors produced not so much a uniform pro- or anti-reform perspective as a set of interests that were intent on exerting domestic control of bureaucratic and political decision-making, whether at the centre in the forums of high policy, or at the periphery, where much discretionary power actually lay with local officials.

In this context, the national leadership at the party-state centre has faced a continuing problem of trying to plug gaps in the growing fragmentation of central state power. In the 1990s, as a consequence of the changes brought about by transition, they were challenged from another direction. Some aspects of the process of commercialisation of the state sector threatened to damage the wider standing of the party. There were increasingly hostile popular reactions to growing abuses of state power and to conspicuous signs of personal wealth among party officials. This hostility was a symbol of the heightened social inequality that arose with the economic forces released by marketisation.[7] In the early period of economic reform, removal of subsidies led to a withdrawal of some social safety net provisions. Subsequently, inadequate state revenues led to a drop in the quality of state services, and a growing tendency for local health, education and other service providers to squeeze the local population for personal contributions [*Beresford, 2001: 222*]. Petitions and protests from disgruntled citizens complaining about official corruption, arbitrariness and inefficiency were a growing phenomenon in the 1990s [*Vasavakul, 1996: 50–2*]. There was sporadic but serious rural unrest and protest [*Kerkvliet, 2001: 265–8; Koh, 2001: 543–8*].[6] These

outbreaks were a cause for much leadership concern and contributed to the doubts that were apparent in 1998 and 1999 over whether to press on harder with *doi moi*, or to put the brakes on.

Thus, throughout the reform era, a primary preoccupation of the party-state centre has been with loss of control. While *doi moi's* successes bolster the legitimacy of the regime, they threaten day-to-day control, both within and across the increasingly ambiguous boundaries of the state. In the next section, I argue through the case of the restructuring of SOEs that state reform strategies are primarily determined by the pressures exerted by emerging domestic business interests, with the party-state centre not only adapting its policies to these realities but also fighting a continuous uphill battle to implement them against resistance. In the subsequent section, I suggest that ODA offers one opportunity for the party-state centre to reinforce domestic control in the face of these pressures, while also helping to sustain development. This section shows the selective, strategic uses made by state actors of both aid resources and the ideas and influences that come with them. Here, we encounter neo-liberalism in the shape both of structural adjustment and of governance reform. Ironically, those who seemed to benefit most from efforts to advance these agendas were not the business interests but party and state officials seeking to defend the party-state centre from the political implications of marketisation.

V. *DOI MOI* MEETS NEO-LIBERALISM: THE CASE OF SOE REFORM[7]

The World Bank in its 2003 Development Report noted 'uneven progress in the march towards development', with some areas of 'outright stagnation'. It singled out SOE reform as a problem area: '... it will be necessary to identify mechanisms to instill a new life into the programme to restructure state-owned enterprises' [*World Bank, 2002b: 3*]. The Report warned: '(Vietnam) may fail to remove the obstacles in its reform path, let the vested interests capture government transfers to offset their inefficiencies, and see an unhealthy relationship develop between enterprises... and government officials. A weak macroeconomic situation, slower growth, increased inequality and generalised corruption could be the outcomes...' [*World Bank, 2002b: 4*]. The recipe urged is a familiar one, including accelerated privatisation (namely, conversion to private company form, issuing of shares, and development of an effective share trading system), removal of subsidies, reform of the banking system and measures to 'level the playing field'.

The Vietnamese Government would have no trouble endorsing the World Bank's diagnosis of the problems it faces with its SOE sector. But the solutions followed (particularly when viewed in the light of their actual implementation) demonstrate a very different set of priorities. Between 1986

and 1992 state controls and subsidies were dismantled in a series of measures which allowed SOE managers greater autonomy to operate on a commercial basis. Steps were taken to drive out of existence many small, non-viable enterprises (most of them owned by local governments). The result was to more than halve the number of SOEs (from over 12,000 in 1990 to about 6,000 in 1994). In 1991, the 2nd Plenum of the 7th Party Congress approved a proposal on 'equitisation', that is the transformation of SOEs into joint-stock companies, with retention of state owned shares. A pilot programme was approved in mid-1992, and efforts made to speed it up a year later. Line ministries and local government SOE owners were instructed to develop divestiture plans, which were to be submitted to a national steering committee. By the end of 1997 under this 'bottom-up process' only 15 enterprises had been converted to joint-stock companies.

Under the urgings of aid donors, various measures were adopted to speed up equitisations in the second half of the 1990s and, and as a result, from the end of 1997 to May 2002, 636 SOEs were equitised [*World Bank, 2002a: 22*]. Practical obstacles to equitisation included technical and legal difficulties, but the main impediment was that most of the potential purchasers were existing managers and employees who, in most cases, already enjoyed informal ownership rights [*Gainsborough, 2002: 358–60*]. Many SOEs are what Fforde calls '*de facto* virtual share companies where owners' rights are varied and essentially commercial in nature and operation' [*Fforde, 2002: 371*]. Manager-owners of these semi-privatised entities were not prepared to surrender the advantages of SOE legal status: clearer title to land, easier access to loans, fringe benefits for employees, security of employment and so on.

Thus, the actual pace of reform was shaped by the need to respond to the challenges posed by the alliance of state or party officials and enterprise managers who, in the new commercial environment, were extracting growing benefits, some in the form of rents. One indication of this was that while some efforts were made to remove obstacles to equitisation, the restructuring of enterprises remaining nominally in state hands was a more significant component of the overall reform programme. One aim was to reduce the power of bureaucratic line agencies which were obstructing some commercial efficiency reforms [*Vasavakul, 1996; 1997*]. The establishment in 1994–95 of 'General Corporations', that is large conglomerates of SOEs, sought to achieve this. These Corporations control most of the key industry sectors and play a vital role in the Government's industry development and export strategies. But as commercial entities, their rationale was far from clear, and their constitution reflected a political compromise between the need to corral local business interests under closer party-state oversight and the desire to provide a new set of structures in the name of market efficiency.

The 9th Party Congress in 2001 laid out an ambitious and expansive future role for the SOE sector, '... being the key force in boosting the economic growth and providing ground for the industrialisation and modernisation of the country with the socialist orientation'. But at the same time, restructuring measures were redoubled. During 2001–03, around 1,800 out of 5,571 SOEs were to be subject to reform measures, mostly through equitisation (1,400), divestiture (140), liquidation (220) and merger or consolidation. Several measures were also announced for auditing, reviewing and restructuring a number of large SOEs with a view to improving their commercial operations [*IMF, 2001: 17*]. A parallel set of measures sought to assert greater party control: once again, we see the party-state combining a liberalising economic reform programme with a domestic political strategy. The 2001 Party Congress spelt out the principles: '...Party organisations in state enterprises lead in the application of party lines and policies, participate in proposing and leading in implementing efficiently the business development; ensure the legal rights for labourers; bring democracy into play; lead in building the manager system, party members, and in fighting corruption; lead mass organisations in implementing their tasks and functions'. The Party Central Organisation Committee issued a new circular on '...innovating the leading way of party organisations in SOEs to fit with the requirements and operational characteristics of enterprises in the new conditions'.

The party-state centre has a vital interest in the overall economic success of the state economic sector and its rates of productivity: about one-quarter of state revenue is extracted from SOEs, and of that about two-thirds from the 200 largest enterprises [*Painter, 2003: 26*]. The efforts to improve their productivity and profits has shifted somewhat towards a new set of more hands-off 'level playing field' measures, which will both impose efficiency disciplines on SOE managers and remove some of the obstacles to equitisation of those SOEs not considered to be strategic. A number of legal and administrative measures are being introduced to use market instruments to improve commercial performance, such as restructuring of state owned commercial banks so as to put a check on the ability of SOEs to acquire easy credit and similar favoured treatment through political connections, and other changes that 'level the playing field' on which private enterprise and state business enterprises compete.[8] Meanwhile, further steps are being taken to improve the efficiency of enterprise management through restructuring of the General Corporations into 'holding companies', new forms of corporate governance to try to impose stricter disciplines on management, and new terms of employment for enterprise managers that include direct sanctions for incompetence. The measures to re-assert party control must be seen in this context, as efforts to maintain a party stake in the commercial future of entities that operate at an increasing distance from direct state control.

VI. INTERNATIONAL AGENCIES AND DOMESTIC REFORM

Financial aid is one of the instruments through which neo-liberal ideas and policies are promulgated by international agencies and bilateral donors. As the quotation at the beginning of the previous section suggested, the possibility that Vietnam could sustain economic growth at required levels, while failing to privatise its SOE sector in ways that conform to neo-liberal ideas of appropriate ownership and management structures, is one that the international proponents of structural reform have found hard to believe. The World Bank has sought variously to convince, cajole and coerce the Government into faster liberalisation and structural reform. In opening itself to such influences, the Government of Vietnam has taken a risk, given that it both wishes to pursue its own domestic development strategies and is also heavily preoccupied with sustaining its domestic authority in a situation of rapid realignment of political and economic forces due to the processes of marketisation and integration. How has it handled this risk? In sum, I argue that it has succeeded in co-opting aid to its own purposes.

ODA to Vietnam increased dramatically after the normalisation of relations with the US and the commencement of World Bank lending in 1993. According to the World Bank Development Indicators, between 1994 and 1999, annual ODA averaged out at 20 per cent of annual central government expenditures, rising to 27 per cent in 1999. Eighty per cent of government capital expenditure is funded from ODA [*Bartholomew and Lister, 2002: 8–9*]. Loans have been a fast-growing form of aid, reaching about three quarters of total disbursements in 2001. In 2000, by far the single largest donor was Japan, providing nearly 54 per cent of total disbursements. The World Bank estimates that in the years 2003 to 2005, Japan will contribute about 30 per cent of total ODA, the World Bank the same amount and ADB about 20 per cent. ODA is thus crucial for sustaining economic stabilisation and growth. However, for Vietnam debt relief is not an issue [*World Bank, 2002b: 10*]. Debt services as a share of total exports are less than ten per cent (compared with Indonesia at over 30 per cent and Thailand at 23 per cent). About four-fifths of debt in Vietnam is with multilateral and bilateral donors, on concessional terms [*World Bank, 2001: 36–7*].

The Government of Vietnam's enthusiasm for aid has not abated with the experience of being enmeshed in the aid system. However, the experience has not been an untroubled one and there remain lingering suspicions and tensions. The initial IMF/World Bank loans negotiated in 1994 were suspended in 1996–97 as a result of non-compliance with targets agreed during the negotiations. No immediate, dire economic consequences followed [*Dijkstra, 2002: 313–4*]. Thus, on their side, the IFIs in their attempts to attach conditions to loans have not found Vietnam an easy target. Conflict

became evident during discussions for new loans in 1999, when the IFIs demanded an 'accelerated *doi moi*' as a loan condition. At the international donors' Consultative Group meeting in that year, the Minister of Planning and Investment, Tran Xuan Gia said: '...you cannot buy reforms with money ... no one is going to bombard Vietnam into acting'.[9] Discussions with the IMF were broken off over disputes about the agreed policy framework paper. However, there was disunity among the donors as to the stance to take, with a growing tension between the World Bank's increasingly tolerant and longer-term view of the relationship, and the IMF's preference for imposing stricter conditions and timetables. In the event (as described at the beginning of this article), the Government, following a long internal debate, adopted a series of measures that satisfied both the IMF and World Bank [*Tonnesson, 2001: 177–85*]. New Poverty Reduction Growth Facility (PRGF) loans amounting to $415 were granted under the banner of '... the twin imperatives of restoring the momentum of growth and deepening the quality of development' [*IMF, 2001: 44*].

The successive IMF reviews of reform progress in the first two years of the loan programme expressed doubts and reservations (for example, about SOE and state bank reform) but were mostly favourable. However, in mid-2002 (at which point about two-fifths of the loan had been handed over), disbursement ceased because of a dispute over audit and accounting arrangements in the State Bank. The Government refused to change its national audit legislation and auditing procedures to comply with the standard requirements of the IMF. Negotiations continued with the hope of finding a formula that satisfied both sides [*IMF, 2004: 4*]. However, this was not possible and in April 2004, the IMF and the Government jointly agreed that the PRGF would expire without further disbursements [*Vietnam Economic Times, 2004: 12*].

The PRGF loans from the Bank and IMF bundled together support for agreed programmes of economic reform with social expenditure initiatives. It would seem on the face of it that the acceptance of the PRGF facility was an act of compliance by the Government with the set of demands embodied in these programmes. Thus, in the case of SOE reform, in November 2001, the government issued an 'action plan' to flesh out the details of the reform programme, allocated responsibility for 34 specific tasks, and gave detailed deadlines. This action plan embodied the milestones and targets which were incorporated in the agreed strategy with the IMF and World Bank. In the Letter of Intent issued in November 2001, the government set out agreed 'structural benchmarks and performance criteria'. From the IFIs' points of view, getting these into official Government and party pronouncements was a considerable achievement. But it is also possible to view the IMF conditions as a set of props for the party-centre's own exhortations and instructions to

those charged with implementing the party centre's policies. The Government's decision to accept the PRGF loan was arguably less a cause and more a consequence of the Government's reaffirmation in 2001 of the *doi moi* programme. The availability of the loans and the need for capital inflows to sustain growth was an important factor in bolstering the strength of those against turning back or slowing down the reform programme.

There is nearly always slippage on specific targets and milestones [*World Bank, 2001: 39–41*], but the normal result is mild admonishment more than specific sanctions when the time comes to review progress. In some cases, agreement is reached on the existence of 'acceptable reasons' why a target was not met. Some milestones seem deliberately chosen by both sides for their symbolism rather than substance. One target for the SOE programme, for example, was a requirement that the national coordinating body charged with overseeing the SOE reform process be given 'enforcement powers', a response to a long-standing criticism of weak implementation. A new monitoring unit was set up under a Deputy Prime Minister and placed within the Office of Government (effectively, the Prime Minister's Department). The change made little practical difference to the political processes of careful negotiations with local political groups and business interests by which the annual programme of equitisation was implemented [*Painter, 2003: 38*].

The Government has demonstrated growing self-confidence and sophistication in dealing with the aid sector. It has devoted considerable effort to ensuring that high-level dealings with donors and monitoring of the aid programme are carefully managed and controlled. Here, they have been assisted by efforts on the donor side to 'coordinate' aid programmes into sector-wide arrangements. The World Bank took the lead, and the Government responded positively with a view to having one forum where it could seek to shape the overall programme to its ends. The annual Consultative Group meetings discuss and monitor aid disbursement and provide a forum where the donors can make known their views about domestic developments and the Government can, in its turn, put the case for its preferred programme of assistance.

In the implementation and administration of aid, The Ministry of Planning and Industry (MPI), assisted by other powerful central agencies such as the Ministry of Finance, has taken a firm grip over both the oversight of relations with donors and also the aid disbursement and reporting processes within the state apparatus. Procedures for prioritising aid, dealing with donors, and controlling project implementation have been codified in a comprehensive decree.[10] In particular programme areas the Government has set up consultative and coordinating arrangements so that project aid can be directed at preferred areas. For example, in the field of Public Administration

Reform, the Government in 2001 prioritised a series of sub-programmes in which it has actively sought technical assistance and loans.

The party-state centre has sought to use aid to attempt to counter some of the fragmentary forces discussed earlier and to assist it in exercising control over the periphery. In a context where spending power has shifted significantly to the local level [*World Bank, 2002b: 85*], the aid budget is a welcome means of enabling the centre to engage with and seek to regulate local actors. Even where funds are spent on local projects, the hold that the centre has over disbursement and accounting provides it with avenues of control that it normally may not have. Effectively, it is 'piggy-backing' on the donors' project control and accounting requirements. In addition, the aid budget is used for the centre's policy ends, as against those that local state actors may find more attractive or compelling. The centre may otherwise be short of funds and technical resources to develop and sustain nation-wide initiatives. There is evidence that the presence of this new flow of resources and the measures taken to control and monitor their disbursement has shifted the balance of power at the centre towards coordinating agencies such as MPI and away from sectoral ministries [*Norlund et al., 2003: 147–8*].

A good example is the anti-poverty programmes that have been launched under the heading of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), approved and announced by the government in May 2002 in keeping with the agreement on the PRGF loans [*Socialist Republic of Vietnam, 2002*]. The form and content of the Government's CPRGS reflects World Bank global strategies [*Craig and Porter, 2003: 56–9*]. However, these strategies, which admit the need for certain kinds of state involvement in economic development and social engineering, open new opportunities for a national government such as Vietnam's. The policy document that outlines the Strategy for Vietnam was a domestic product, not imposed from outside. It draws its cues from the Ten-Year Development Strategy (2001–10) and Five-Year Socio-Economic Development Plan (2001–05) and reaffirms a number of policies and programmes that were already in place. The CPRGS was drafted under the coordination of MPI, with the assistance of an inter-ministerial committee of 52 officials from 16 government agencies. Consultants were engaged – for the most part local experts – and four national consultation workshops were held, along with four regional workshops bringing together about 500 officials.

Technical assistance was provided by a Poverty Task Force, which was set up in 1999 at the World Bank's initiative 'to facilitate Government–donor–NGO collaboration on poverty issues' [*Shanks and Turk, 2003: 4*]. Membership comprised 16 government ministries, six donors and eight NGOs (four local and four international). One of its tasks was to pull together the considerable amount of research and technical analysis that has already

been undertaken by the World Bank and by others on poverty and on service needs and gaps. One assessment of this process was that the Task Force 'helped to build consensus around the most pressing issues on the poverty reduction agenda' [*Shanks and Turk, 2003: 5*]. Among the work done was the collection of local community data, including a 'participatory consultation exercise' at 80 research sites across the country. The central role of the World Bank in coordinating this exercise aroused more alarm from international NGOs and other donors than it did from the Vietnamese Government, but 'early discussions with MPI were helpful in alleviating the former concerns' [*Shanks and Turk, 2003: 10*]. The bulk of the fieldwork and the conduct of the local community consultations were done with the involvement of local District and Commune Peoples' Committees, and local mass organisations such as the Women's Union and Fatherland Front. These exercises lent support to the Government's own 'grassroots democracy' measures, initiated in 1998 in response to rural unrest [*Fritzen, 2001: 3–4*]. In other words, there is evidence from which we can infer that the process of collaborative policy-making between the Government and donors under the CPRGS was as much a way of strengthening party-state policy capacity, and reaffirming pre-existing programmes, as it was a means of imposing an external view derived from IFI models of development. It must be stressed, however, that this central policy capacity resides in a few central agencies and core actors who have the responsibility for coordination, and they continue to compete for power with other powerful state actors with sectoral or local priorities when interests and perspectives clash. The fate of all development strategies and programmes depends critically on these internal divisions and conflicts.

In sum, the extent to which the policy process of *doi moi* is shaped by the external pressures of lenders and donors should not be exaggerated. The impact of the combined influences of technical assistance and loan conditions, with their attendant exhortation and monitoring, is to strengthen the hand of some central party-state actors by supporting their own top-down attempts at restructuring. *Doi moi* was conceived while Vietnam was still shut off from external influences, and it has been sustained through years of intense domestic political debate within party-state circles. Its implementation through central party and state planning documents and through particular legal reforms or policy initiatives is a continuous process of debate and conflict. However, the presence of aid and the guidelines that come with it can be powerful tools in the hands of particular actors in these conflicts.

If these actors are able to use aid as leverage in local bureaucratic conflicts, they might align differently when faced with the issue of external vulnerability. The general context of aid from the viewpoint Vietnamese Government is not one of extreme vulnerability: Vietnam is dependent on capital inflows to feed growth, but is not a mendicant before the IFIs. Thus, it

pays the Government occasionally to be 'difficult' and to present a belligerent face. Donors as a result tread more carefully for fear of creating a political backlash from 'conservative forces'. Rather than impose more radical demands, official pronouncements from most donors seek acceleration of existing directions, and renewed efforts to achieve under-shot targets. The World Bank, in particular, has tended to adopt a stance of encouragement and support rather than adversarialism.[11] In response, the advocates of restructuring in the party-state gratefully accept funds and technical assistance to help them in strengthening their grip in a domestic policy environment of increasingly centripetal social and political forces.

VII. CONCLUSION

Vietnam's economy consistently confounds its critics with growth and performance beyond expectations. The reviews of economic performance by the IFIs offer somewhat grudging observations on the continued health of the economy, while pointing out areas of vulnerability such as the need for large capital inflows. The economy has recovered since the effects of the 1997 and shows levels of vigour and growth characteristic of pre-crisis times. A recent economic bulletin reported a 'staggering' and 'whooping' (*sic*) year on year growth of 43 per cent in exports in the first quarter of 2003 [*World Bank. 2003: 1–3*]. Recent inflows of capital and remittances estimated to be about $2b a year from Viet Kieu (expatriate Vietnamese), stimulated by official encouragement and a lifting of restrictions on ownership of property, offer a new sustaining factor [*Vietnam News, 2003; Vietnam Investment Review, 2003*].

On the strength of this growth, the Vietnamese Government can both claim to its domestic audience that 'market socialism' works and also present an image of economic liberalisation to the outside world. However, I have argued in this article that the party-state centre is pursuing a state-led developmental strategy that makes selective use of the techniques and instruments of neo-liberalism (supported by donor technical and financial assistance) to achieve its aims: '...global capitalism, far from simply threatening the Vietnamese state, is supplying an arsenal of techniques by which state-directed cultural borrowing will salvage and refine a managerial regime whose previous policies had seriously tarnished it' [*Woodside, 1997: 74*].

The expectation and hope of many in the donor community is that global economic forces will be the key to further liberalisation, especially as Vietnam becomes enmeshed in the multilateral institutions of the international economy such as the WTO. As we have seen from the case of SOE reform, however, behind such liberalisation may lie a very different domestic

political and economic reality. The process of marketisation taking place does not conform to the model of 'transition' contained in the paradigms of liberalisation espoused by the IFIs. Large areas of business and entrepreneurship in Vietnam have their roots in the state as much as in the market, and all sectors operate according to a set of 'local rules' rather than to those universally prescribed. 'Privatisation' is a good case: as I have argued, it has already happened informally, and the programme of so-called 'equitisation' is *de facto* a means of preserving and formalising informal ownership rights, in which party-state actors are still implicated. Hence, it proceeds at a pace suited to the interests of the owner-managers and their state and party clients and protectors. The case of SOE reform illustrates a pattern common across the economic reform process in Vietnam: because the party-state remains enmeshed with the business interests that marketisation has given rise to, it is vital that the process of 'transition' is one which the party-state centre controls, or at least contains. In various ways, the centre has had to fight hard not to lose control over its own people and to maintain the integrity and effectiveness of its own systems of power and rule. Political strategists and policy makers have trodden a fine line between the uncertainties of 'reform' and the need for stability. In this context, one stratagem has been to draw on the financial and technical support of overseas aid to sustain policy and state capacities.

Thus, Vietnam's domestic political processes provide the key to understanding both the domestic forms that marketisation are taking and the impact of external forces mediated through international institutions, bilateral and multi-lateral dealings and aid donors. Most of the international aid and donor advice is urging on Vietnam an accelerated liberalisation programme, to which the Government seems to be conforming. However, as I have argued, this is an over-simplification. Moreover, the party-state centre has used aid to help with its own political containment strategy. However, this strategy is in some respects a precarious one, made more so (for example) by rising levels of corruption and inequality, but less so by the somewhat unlikely alliance between key party-state central actors working within a framework of one-party rule on the one hand and the World Bank, IMF and other champions of neo-liberalism on the other.

NOTES

1. The 'doubters' were a mixture of diverse groups within the party and state, some of whom were on the losing end in material terms as a consequence of some reforms and some (many from the older generation) who were highly suspicious of the reforms on principle. A 'touchstone' issue was the bilateral trade agreement with the US, which was rejected in the first instance but later agreed to.

2. The governance emphasis might seem on the surface to be challenging for a one-party state avowing democratic centralism. However, the way it is interpreted and applied by donors in Vietnam allows for the party and government to embrace 'governance' aid programmes using local nomenclature. Tensions and conflicts are thereby often overlooked – for example by eliding the governance concept of 'rule of law' with the Vietnam's concept of 'rule by law'. As to political liberalisation more broadly, this is mutually agreed to be 'off the agenda'. The party steadfastly refuses to countenance relaxation of one-party rule and continues to assert the doctrine of democratic centralism.
3. This approach shares with Weiss [*2003: 15–19*] an acknowledgement of the 'enabling' as well as 'constraint' view of globalisation, which suggest that states are able choose to benefit from globalisation through adopting different domestic strategies.
4. The term 'party-state centre' is convenient shorthand to indicate, first, the overlap and inter-penetration of the Communist Party and the state and second, a set of interests and concerns that are unique to top level party-state actors. This is not to say that the party-state centre is a coherent, united, uniform group in all circumstances and situations.
5. Much of this income is accepted as a normal by-product of the public administration process, for example, through the collection of local semi-official fees and charges that are converted by the agency concerned into income supplements.
6. In Thai Binh Province in the mid-1990s, the abuses by local party-state officials included stealing the proceeds of land sales, allocating land to friends and family and diverting local revenues to private businesses. There was a 10,000 strong demonstration in the provincial capital, policemen were held hostage, local officials were driven out of town and their homes were burnt. The party centre sent inspection teams of senior party figures to investigate. As a result, the provincial party chief and the Chairman of the Peoples Council were dismissed, and at least 30 officials ended up in prison.
7. This and the following sections draw on Painter [*2003*]. Thanks are due to Phan Huu Nhat Minh for research assistance and to Mekong Economics for facilitating access to informants and documents.
8. One law on the drawing board would create a unified enterprise law, instead of one for state and one for non-state enterprises. The precise content of all such laws and (in particular) their implementation at the local level are, however, shaped by the claims of different local and central business, party and bureaucratic interests. Among them, the state business interest is a very powerful force. For examples, [see *Gainsborough, 2002: 361– 4*].
9. The consultative group meeting is an annual event at which all donor organisations and the government exchange views and review the content and direction of the overall aid effort.
10. Decree 17/2001/ND-CP, *On the Issuance of the Regulation on the Management and Utilization of ODA*
11. For an account of the role of the World Bank in negotiating and implementing the CPRGS loans and the poverty reduction strategy [see *Norland et al., 2003: 132–3*].

REFERENCES

Abrami, R.M., 2003, 'Vietnam in 2002: On the Road to Recovery', *Asian Survey*, Vol.43, No.1.

Abuza, Z., 2001, 'Debating the Future: Vietnamese Politics and the US Trade Deal', *Problems of Post-Communism*, Vol.48, No.1.

Arkadie, B.V. and R. Mallon, 2003, *Viet Nam: A Transition Tiger?*, Canberra: Asia Pacific Press.

Bartholomew, A., and S. Lister, 2002, *Managing Aid in Vietnam – A Country Case Study*, Paris: DAC Task Force on Donor Practices, Organisation for Economic Cooperation and Development.

Beeson, M., 2001, 'Globalization, Governance, and the Political-Economy of Public Policy Reform in East Asia', *Governance: An International Journal of Policy and Administration*, Vol.14, No.4.

Beresford, M., 2001, 'Vietnam, the Transition from Central Planning', in G. Rodan, K. Hewison and R. Robison (eds.), *The Political Economy of South-East Asia*, (Second edition), Melbourne: Oxford University Press.

Communist Party of Vietnam (CPV) Central Committee, 2000, *Socio-Economic Development Strategy 2001– 2010*, Hanoi.

Craig, D., and D. Porter, 2003, 'Poverty Reduction Strategy Papers: A New Convergence', *World Development*, Vol.31, No.1.

Dijkstra, A.G., 2002, 'The Effectiveness of Policy Conditionality: Eight Country Experiences', *Development and Change*, Vol.33, No.2.

Fforde, A., 1993, 'The Political Economy of Reform: in Vietnam – Some Reflections', in B. Ljunggren (ed.), *The Challenge of Reform in Indochina*, Harvard University: Harvard Institute for International Development

Fforde, A., 1998, 'Strategic Issues in Vietnamese Development Policy: State Owned Enterprises (SOEs), Agricultural Cooperatives and Public Administration Reform (PAR)', Paper presented at Political and Social Change, RSPAS, Australian National University, Canberra.

Fforde, A., 2002, 'Light within the ASEAN Gloom? Vietnam's Economy since the Asian Financial Crisis', in *Southeast Asian Affairs 2002*, Singapore: Institute of Southeast Asian Studies.

Fritzen, S., 2000, *Decentralization and Local Government Performance: A Comparative Approach with Application to Social Policy Reform in Vietnam*, Doctor of Philosophy Dissertation, Princeton University.

Fritzen, S., 2001, 'Donors' Local Development Groups and Institutional Reform Over Vietnam's Development Decade', Paper presented at Vietnam Update Conference, Department of Social and Political Change, Australian National University, Canberra, Nov.

Gainsborough, M., 2002, 'Beneath the Veneer of Reform: the Politics of Economic Liberalisation in Vietnam', *Communist and Post-Communist Studies*, Vol.35, No.3.

Gainsborough, M., 2003a, 'Corruption and the Politics of Economic Decentralisation in Vietnam', *Journal of Contemporary Asia*, Vol.33, No.1.

Gainsborough, M., 2003b, *Changing Political Economy of Vietnam: The Case of Ho Chi Minh City*, London: RoutledgeCurzon.

Glewwe, P., Gragnolati, M., and H. Zaman, 'Who Gained from Vietnam's Boom in the 1990s? An Analysis of Poverty and Inequality Trends', World Bank Policy Research Working Paper No.2275, Washington DC: World Bank.

IMF, 1999, *Vietnam: Selected Issues*, IMF Staff Report No.99/55, Washington DC: International Monetary Fund.

IMF, 2001, *Vietnam: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility*, IMF Country Report No.01/59, Washington DC: International Monetary Fund, 2001.

IMF, 2002, Vietnam: *Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria*, Washington DC: International Monetary Fund.

IMF, 2004, 'IMF Concludes 2003 Article IV Consultation with Vietnam', IMF Public Information Notice, 1 Dec.

Jayasuriya, K. 2002, 'Workfare for the Global Poor: Contracts, Civil Society and Social Capital', Paper presented at conference on Governance in Asia, City University of Hong Kong, 5–7 Dec.

Jayasuriya, K, and A. Rosser, 1999, 'Economic Orthodoxy and the East Asian Crisis', *Third World Quarterly*, Vol.22, No.3.

Jeong, Y., 1997, 'The Rise of State Corporatism in Vietnam', *Contemporary Southeast Asia*, Vol.19, No.2.

Kerkvliet, B.J.T., 2001, 'An Approach for Analysing State–Society Relations in Vietnam', *Sojourn: Journal of Social Issues in SE Asia*, Vol.16, No.2.

Koh, D., 2001, 'The Politics of a Divided Party and Parkinson's State in Vietnam', *Contemporary Southeast Asia*, Vol.23, No.3.

Larmour, P., 2002, 'Conditionality, Coercion and Other Forms of "Power": International Financial Institutions in the Pacific', *Public Administration and Development*, Vol.22, No.3.

Masina, P., 2002, 'Vietnam and the Regional Crisis: the Case of a "Late Late-comer"', *European Journal of East Asian Studies*, Vol.1, No.2.

Migdal, J.S., 2001, *State in Society: Studying How States and Societies Transform Themselves and Constitute One Another*. Cambridge: Cambridge University Press.

Norland, I., Ca, T.N., and N.D. Tuyen, 2003, *Dealing with the Donors. The Politics of Vietnam's Comprehensive Poverty Reduction and Growth Strategy*. Helsinki: Institute of Development Studies, University of Helsinki.

Painter, M., 2002, 'Coordination Failures in a Fragmented State: The Politics of Central Policy Management in Vietnam', Paper presented at Governance in Asia Conference, City University of Hong Kong, 5–7 Dec.

Painter, M., 2003, 'The Politics of Economic Restructuring in Vietnam: The Case of State-owned Enterprise "Reform"', *Contemporary Southeast Asia*, Vol.25, No.1.

Painter, M., 2004, 'Civil Service Salary Reform and the Anti-Corruption Agenda: What Can We Learn from Vietnam?', Paper presented to conference on Regulation, Deregulation and Re-regulation in Globalizing Asia, School of Public Policy, National University of Singapore.

RIAP, 2001, *Public Sector Challenges and Government Reforms in South East Asia*, Sydney: Research Institute for Asia and the Pacific, University of Sydney.

Shanks, E. and C. Turk, 2003, *Refining Policy with the Poor: Local Consultations on the Draft Comprehensive Poverty Reduction and Growth Strategy in Vietnam*. Policy Research Working Paper No.2968, Washington DC: World Bank.

Socialist Republic of Vietnam, 2002, *The Comprehensive Poverty Reduction and Growth Program (CPRGS)*, Approved by the Prime Minster as Document No.2685/VPCP-QHQT, 21 May, Hanoi.

Tenev, S., Carlier, A., Chaudry, O., and Q.-T. Nguyen, *Informality and the Playing Field in Vietna's Business Sector*, Washington DC: International Finance Corporation. World Bank.

Thayer, C., 2001, 'Vietnam in 2000: Towards the Ninth Party Congress'. *Asian Survey*, Vol.41, No.1.

Tonnesson, S., 2001, 'Vietnam in the Asian Crisis', in C. Brundenius and J. Weeks (eds.), *Globalization and Third World Socialism*, Basingstoke: Palgrave.

Tran, V.S., 2000, 'Ad hoc Measures Taken by the Government and State Bank of Vietnam to Reduce Financial Difficulties to State-owned Enterprises', Paper to Vietnam–Japan Joint Research Phase 3, Session 3, Hanoi, 8–9 Dec.

Vasavakul, T., 1996, 'Politics of the Reform of State Institutions in the Post-socialist Era', in S. Leung (ed.), *Vietnam Assessment: Creating a Sound Investment Climate*, Singapore: Curzon Press/Institute of Southeast Asian Studies.

Vasavakul, T., 1997, 'Vietnam: The Third Wave of State Building', *Southeast Asian Affairs 1997*, Singapore: Institute of Southeast Asian Studies.

Vietnam Economic Times, 2004, 'Consensus to end deal', *Vietnam Economic Times*, 123, May 2004.

Vietnam Investment News, 2003, 'Relaxed Rules Entice More Remittances', *Vietnam Investment News*, 11 April 2003.

Vietnam News, 2003, 'Viet Kieu Investors Grow by the Year', *Vietnam News*, 12 Feb. 2003.

Weiss, L. 2003, 'Introduction: Bringing Domestic Institutions Back in', in L. Weiss (ed.), *States in the Global Economy: Bringing Domestic Institutions Back in*, Cambridge: Cambridge University Press.

Woodside, A., 1997, 'The Struggle to Rethink the Vietnamese State in the Era of Market Economics', in T. Brook and H.V. Luong (eds.), *Culture and Economy: the Shaping of Capitalism in Eastern Asia*, Ann Arbor: The University of Michigan Press.

Woodside, A., 1999, 'Exalting the Latecomer State: Intellectuals and the State During the Chinese and Vietnamese Reforms', in A. Chan, B.J.T. Kerkvliet and J. Unger (eds.), *Transforming Asian Socialism: China and Vietnam Compared*, St Leonards: Allen & Unwin.

World Bank, 2000, *Vietnam: Managing Public Resources Better — Public Expenditure Review 2000*, Washington DC: World Bank.

World Bank, 2001, *Vietnam Development Report 2002: Implementing Reforms for Faster Growth and Poverty Reduction*, Hanoi: World Bank.

World Bank, 2002a, *Taking Stock: An Update on Vietnam's Economic Reforms: Progress and Donor Support*, Mid-year Consultative Group Meeting, Ho Chi Minh City, 23-24 May.

World Bank, 2002b, *Development Report 2003: Vietnam Delivering on its Promise*, Hanoi: World Bank.

World Bank, 2003, *Vietnam Economic Brief April 2003*, Washington DC: World Bank.

Zhu, T.B., 2003, 'Building Institutional Capacity for China's New Economic Opening', in L. Weiss (ed.), *States in the Global Economy: Bringing Domestic Institutions Back in*, Cambridge: Cambridge University Press.

Malaysia: New Reforms, Old Continuities, Tense Ambiguities

WILLIAM CASE

I. INTRODUCTION

Among the countries hit by the Asian economic crisis in 1997, Malaysia was hurt least. Its 'mixed economy', featuring globalised enclaves geared to export production alongside protected local markets founded on non-tradeables, had long generated high rates of economic growth and political stability. Its banking sector and corporate structure were better regulated. Its business conglomerates had borrowed less from abroad. To be sure, amid the speculative activities and 'herd' effects that swept the region, Malaysia also suffered downward pressures on its currency and losses of foreign investment. But rather than turning to the International Monetary Fund (IMF), the government rejected neo-liberal prescriptions, instead administering capital controls and corporate bailouts. And while these controls were initially controversial, they were later acknowledged by many analysts as hastening the country's recovery [*Kaplan and Rodrik, 2001*].

William Case, Associate Professor, Department of International Business and Asian Studies, Griffith University, Nathan Queensland 4111, Australia. E-mail: W.Case@griffith.edu.au.
I wish to acknowledge the very useful comments from anonymous referees and the financial support from the Australian Research Council for a 2002–04 Discovery Grant, 'Changing East Asia's Economic and Political Regimes: What Kind of Markets? What Kind of Politics?'.

A closer inspection of the period since the crisis, however, reveals a more torturous progress. To be sure, Malaysia avoided the kind of social and economic dislocation that afflicted Thailand, South Korea, and Indonesia. But it later discovered that the crisis had eroded the compatibilities that had existed between its globalised enclaves and protected local markets. More specifically, while the pursuits of foreign direct and portfolio investors, top politicians and local business elites, and mass-level constituencies had earlier reinforced one another, they now diverged sharply, producing new tensions in Malaysia's political economy. In brief, foreign investors and mass-level constituencies now looked critically upon the dealings between politicians and business elites. But when the government began to limit patronage and corrupt practices, it alienated many politicians and the business elites with whom they were allied, without necessarily rekindling foreign investment or mass-level support.

Similarly, prior to the crisis, in sustaining globalised enclaves and protected local markets, the government had charted a fairly even course between statist interventions and market forces, producing 'middling' amounts of corruption and reasonable levels of governance. But after the crisis, in trying to manage new shifts in market conditions and multi-layered political pressures, government policy responses fluctuated widely, veering between new kinds of controls and neo-liberal reforms.

The main aim of this article, then, is to chart these policy swings. It will also demonstrate that their purpose has mostly been to manage the tensions which, after the crisis, set in between foreign investors, local politicians and business elites, and mass-level constituencies in order to restore the country's fundamental posture of globalised enclaves and protected local markets. Though there is much overlap and ambiguity, four policy phases can be identified. In the first, the government gave emphasis to statist interventions, invoking the capital controls and corporate bailouts that cheered those politicians and business elites who were favoured. But in the post-crisis setting, this alienated foreign investors and mass-level constituencies, encouraging the government finally to rescind most of its controls, while removing many of the business elites who had benefited from bailouts.

In a second phase, then, the government turned to market forces, trumpeting neo-liberal reforms and good governance agendas in both public and corporate sectors. But this new market thrust failed to re-energise foreign investors. At the same time, it appeared to alienate many politicians in the country's dominant party, the United Malays National Organisation (UMNO), who sought to resume the patronage and business links through which they had long prospered. Thus, with neo-reforms producing few economic gains, yet testing political loyalties, the government began to abandon them.

In this third phase, UMNO politicians regained some access to patronage, albeit at lesser levels than prior to the crisis. In addition, a new heavily promoted business elite gained sudden prominence, buoyed by a rash of large state contracts. But this risked inflaming mass-level constituents anew, with resentments over patronage and corrupt practices generating support for an Islamist opposition party, *Parti Islam se-Malaysia* (PAS). At this juncture too, leadership change took place, with Malaysia's long-time prime minister, Mahathir Mohamad, succeeded by his deputy, Abdullah Badawi.

Thus, in a fourth phase, presently underway, the government is renewing its reformist commitments, again limiting patronage while decrying corruption. And the results from general elections, held in March 2004, suggest that this most recent neo-liberal tilt, braced by perceptions of Badawi's religiosity, is indeed helping the government to re-energise mass-level support and foreign investment, with voters awarding the government large majorities and fund managers again calling on Kuala Lumpur.

So far, however, while many UMNO politicians and local business elites are probably discontented, they have remained subdued by the size of Badawi's new mandate. But unless the earlier compatibilities between globalised enclaves and protected local markets have finally been restored, the assumptions underlying this analysis would lead us to expect some resistance from politicians – and any new cohorts of Malay business elites – hence blunting Malaysia's reformist progress. Still, during his first half-year in office, Badawi demonstrated much skill in re-equilibrating diverse interests.

II. GLOBALISED ENCLAVES, PROTECTED LOCAL MARKETS

For several decades prior to the crisis, Malaysia's government staked out some globalised enclaves with which to attract foreign direct investors. Yet it also protected local markets in order to promote 'indigenous' Malay business elites. These twin orientations, while seemingly contrary in nature, were separately pursued, yet discretely linked, thereby achieving some productive synergies. In brief, foreign direct investors, geared principally to export manufactures and petroleum extraction, contributed to the economic growth and revenues through which Malay business elites could be funded. In turn, these business elites, by operating in protected local markets, generated 'excessive' profits that gratified foreign portfolio investors and lenders. Further, by making reciprocal payments to UMNO, Malaysia's dominant political party, these business elites helped reaffirm loyalties to the government among top politicians. In addition, their heightened statuses bolstered ethnic pride among wider Malay followings. Politics were thus stabilised in ways that fed back again to benefit foreign investors, whether

direct or portfolio in their character. Accordingly, Malaysia's mixed economy, producing rapid growth and stability, enabled the government initially to resist the crisis-induced pressures for reforms that engulfed other countries in East Asia. Let us briefly examine the origins and functioning of this mixed economy of globalised enclaves and protected local markets.

When Malaysia was decolonised in 1957, it was left with reasonably free markets, perpetuating its dependency on British investment and commodity exports. Further, to the extent that local entrepreneurs and non-bureaucratic middle classes began to appear, they remained almost exclusively Chinese, deepening grievances among urbanising Malays [*Jesudason, 1989: Chapter 3*]. Thus, when elections were held in 1969, the dominant UMNO won, but was gravely weakened, with Malay support gravitating to the opposition PAS. At the same time, ethnic Chinese support for UMNO's subordinate coalition partner, the Malaysian Chinese Association (MCA), fell to some new Chinese parties in opposition. The Malays were taken aback by this sudden erosion in UMNO's standing. In turn, the Chinese celebrated, holding 'victory' processions throughout Kuala Lumpur, culminating in a watershed event of ethnic rioting known locally as the 13 May incident [*Von Vorys, 1975*].

In the aftermath of this upheaval, a faction of new politicians gained ascendancy in UMNO, then 'restructured' the economy and political institutions. First, to revitalise the economy, the government began to wield state power in more developmental ways. It thus shifted much foreign direct investment from commodities production into export manufacturing, especially consumer electronics. To this end, free market conditions were perpetuated within globalised enclaves labelled free trade zones (FTZs), characterised by flexible labour markets and low tariffs on the importation of capital goods necessary for re-exports [*Jesudason, 1989: 173–76*]. In addition, the government began to participate in the economy more directly, pursuing concerted policies of import substitution and industrial deepening. A range of state-owned enterprises was thus introduced, geared to steel, cement, paper, and automobile production.

These new patterns of investment, abetted by rising prices of petroleum exports during the 1970s, created the conditions in which the government could also restructure the ownership patterns and occupational profiles associated with its 'plural society' [*Furnivall, 1956*]. To ease the resentments of its Malay followings over their small stakes in the economy's modern sectors, the government unveiled a massive programme of 'reverse discrimination' called the New Economic Policy (NEP). The Malays were then given managerial training through quotas on ethnic hiring, both by new state-owned enterprises and Chinese-owned companies, ownership stakes involving a 30 per cent quota on corporate equity, entrepreneurial experience

through a favoured distribution of state contracts, licences, and credit, and new middle-class statuses through ethnic-based discounts on home and automobile purchases.

Foreign direct investors, operating in the FTZs, remained largely insulated from these socio-political pressures, enabling them to compete effectively in global markets. But through direct employment, general economic prosperity, and sundry spillover effects, they helped to buoy new cohorts of Malay executives, professionals, and workers. In addition, they secreted enough corporate taxes, campaign 'contributions', and informal payments that the government gained the resources which, when supplemented by petroleum revenues, funded the promotion of Malay business elites in protected local markets. Through closed tender state contracts, concessions, discounted share issues, and state bank loans, these business elites made their way into non-tradeable sectors, especially infrastructure development, property, and finance [*Gomez and Jomo, 1997: Chapters 4 and 5; Jomo, 2001: 2–4*].

During the 1970s and early 1980s, Malay business elites were initially promoted through state-owned enterprises, later through UMNO's new corporate investments. But after recession in the mid-1980s, state assets were privatised and UMNO holdings were divested to business elites nominally located outside the party. At the same time, these business elites were encouraged to collaborate with the Chinese, some of whom grew to be similarly favoured [*Searle, 1999*]. This promotion was exercised in highly personalist ways, mainly by the prime minister, Mahathir Mohamad, the UMNO treasurer, Daim Zainuddin, and the deputy prime minister and finance minister during much of the 1990s, Anwar Ibrahim. Their motivations appear to have been mixed, Mahathir wishing to nurture a Malay capitalist 'class' while expediting various projects, Daim seeking trustees behind whom he might conceal his family wealth and conflicts of interest, and Anwar trying to entrench his political support [*Gomez, 2002: 108*]. But they all benefited from UMNO's mediation of patronage, summoning a reverse flow of funding from Malay business elites to the party in the form of contributions, donated shares, and friendly takeovers of ailing UMNO-related companies [*Searle, 1999: 149, 158; Jomo and Gomez, 2000: 296*].

But whatever its finer motivations, this promotion of favoured Malay business elites contributed broadly at this juncture to economic growth and political stability. First, in terms of growth, while this promotion has in most accounts been critically dismissed as rent-seeking, clientelism, and 'cronyism', it was precisely the limits on competition that made possible the speculative profits that draw foreign portfolio investors and lenders to emerging markets. Meanwhile, free market enclaves mostly remained insulated, attracting foreign direct investors geared to more competitive global markets. In this way, we can understand the seeming paradox in

Malaysia of rapid economic expansion paralleled by voracious rent-seeking [*Khan, 2000*].

Second, in terms of political stability, the rise of Malay business elites, far from exacerbating the disparities that trigger social grievances, inspired a broader sense of 'group worth' among the Malays, hence aiding the community in its collective rivalry with the Chinese. As Jesudason [*1989: 10–12*] observes, 'feelings of envy and jealousy might well occur within the group, but within the broader system of inter-ethnic contention for recognition and worth, the less successful might have a stake in defending the *nouveau riche*' [see also *Shamsul, 1997: 240–61*]. Thus, UMNO refreshed its status as an ethnic 'protector', consolidating its Malay followings. What is more, though the Chinese bore much of the cost of this socio-economic restructuring, they appeared to appreciate over time the easing of Malay discontents. And as both communities prospered during the rapid economic expansions of the 1990s, they began to cohere in a new national identity, '*bangsa Malaysia*', part of the Vision 2020 schedule of full socio-economic development [*Hilley, 2001*].

'Regulated Illiberalism'

Despite the illiberal tenor of Malaysia's local markets, it is wrong to suggest that business dealings went entirely unregulated. As Khoo Boo Teik [*2000: 220*] notes, the country possesses a formal regulatory apparatus by which to enhance governance, especially in banking and corporate organisation. Much of this was set up during the mid-1980s when, confronted by recession, the government began to privatise state assets and contracts, yet bypassed UMNO in order to issue them directly to business elites. Still, the enforcement of regulations remained uneven, producing different implications for Malaysia's mixed economy.

On the one hand, the regulatory apparatus imbued local markets, however illiberal, with greater structure and resilience. Thus, as we will see in the next section, this enabled the government to resist pressures for still greater liberalisation during the crisis. At the same time, while advanced by regional standards, regulation was selectively carried out, with elite-level transgressors only reined in after falling from political favour. Thus, we will see too that with the structure and resilience of local markets limited, foreign investors remained wary after the crisis, helping prompt the government after a hiatus finally to embrace neo-liberal reforms. Let us briefly review Malaysia's selective regulations of business elites prior to the crisis in order better to evaluate the changes that were made afterward.

Malaysia's central bank, *Bank Negara*, gained broad powers of supervision over the banking sector in 1989. Though hardly independent, it was subsequently able to preserve some arms-length relations between privately-

owned banks and corporate interests. Most notably, banks were limited to holding ten percent of the equity in any one company, denying them a controlling shareholding, while bank officials were barred from sitting on any company board of directors [*Economic Analytical Unit (hereafter EAU), 2002: 135*]. Thus, while state-owned banks like Bank Bumiputra, Maybank, and Sime Bank often lent to favoured Malay business elites on highly concessionary terms, private banks never grew so entangled in business conglomerates in Malaysia as they did in many other East Asian countries.

In the corporate sector, the government introduced strict rules during the 1980s on the composition and functioning of company boards. Henceforth, the number of directorships that any one person could hold was limited; one-third of the board members in any listed company had to be independent; and all directors were required to attend accreditation programmes. Companies were required to set up internal audit committees, while reporting standards were strengthened by the government's instituting the Financial Reporting Foundation [*Malaysian Accounting Standards Board, 7 July 2003*]. At the same time, the beneficial holders of equities had to declare their statuses, reducing the abuses associated with 'trustees' and nominees.

Amid this regulatory stringency, what kinds of business practices emerged? It can be shown that in Malaysia many corrupt or unprofessional behaviours were moderated. By regional standards, corruption was generally regarded by international observers to have been kept within bounds [see *Transparency International, 2002*]. Family ownership, risking unprofessional management, intra-group lending, and cross-subsidisation, remained 'well below' the levels found in Indonesia, Thailand, and the Philippines [*EAU, 2002: 135*].

Nonetheless, the tacit immunity granted many Malay business elites ensured that there were wide-scale abuses. In extending their conglomerates, these business elites often restrained their local borrowings, instead relying heavily on equity manipulations. Typically, they took the assets that were privatised to them through closed tendering, then injected them into a listed firm that doubled as a holding company. Enjoying buoyant stock market conditions throughout most of the 1990s, they then stood by as their share prices soared, permitting still more rapid expansion to take place. Acquisitions could also be funded through reverse takeovers, share swaps, bonus and rights issues, while some of the biggest conglomerates turned finally to heavy, but short-term borrowing from abroad [*Gomez, 2002: 101*]. In this way, business elites who were politically promoted avoided much of the regulatory apparatus that had been put in place, enabling them to establish themselves as high-profile owner-managers, quite unaccountable to minority share-holders.

Prominent examples of Malay business elites during this period included Halim Saad, managing director of Renong, a company closely associated with UMNO and involved in infrastructure and construction, and Tajudin Ramli, chairman of Malaysia Airlines and Naluri, involved in transport and communications. Wan Azmi Wan Hamzah, Amin Shah, and the prime minister's son, Mirzan Mahathir, turned respectively to property development, port facilities, and shipping. But even though gaining some specialisation over time [*Gomez, 2002: 100*], these entrepreneurs rashly extended their conglomerates within their respective domains. In this way, they deepened their indebtedness, over-invested, and contributed to the pumping up of large asset bubbles.

III. CRISIS AND CONTROLS

East Asia's economic crisis during 1997–98 has inspired a vast literature, making it unnecessary to rehearse debates here over its origins and impact. But what stands out from the perspective of this analysis is that although Malaysia, like other countries in the region, was burdened by an overvalued currency, current account deficits, and large external borrowings, Stephen Haggard [*2000: 59*] observes that debt remained low as a proportion of GNP, while its maturity structure and service ratios were 'extremely modest' by regional norms. This comparatively benign record can be attributed to the government's having long operated a mixed economy of globalised enclaves and protected, but not unregulated local markets, sustained by a balanced deployment of statist interventions and market forces.

Of course, the crisis affected Malaysia too, with herd effects blinding foreign portfolio investors to the differences between East Asia's national markets. Moreover, Malaysia's concentration of 'institutional power', in narrowing the range of top decisional arenas, precipitated a series of sharp policy reversals and conflicts, further unnerving foreign investors while encouraging speculators [*MacIntyre, 2002*]. In brief, Mahathir joined forces with Daim in recommending stimulus packages and bailouts. In turn, Anwar ordered that bailouts be withdrawn, instead advocating an austerity that amounted to 'an IMF package without the IMF' [*Haggard, 2000: 61*]. In assuming this neo-liberal posture, Anwar appeared to recover some of the youthful ideals that he had once possessed, even if denoted now by his levelling playing fields in business rather than his earlier Islamised notions of social justice. At the same time, these new neo-liberal commitments enabled him to pursue more worldly ambitions, dismantling the networks of local business elites and top politicians in UMNO upon which Mahathir's paramountcy depended.

Several accounts have been offered of the struggles that took place between Mahathir and Anwar after the crisis, involving a leadership challenge, sharp factional tensions in UMNO, and a new social movement for reform [*Jomo, 1998; Case 1999, 2003; Weiss 2001, 2003; Hwang 2003*]. Thus, it is enough to note here that Mahathir worked through the party apparatus, then deployed the judiciary in order rudely to purge Anwar, thereby gaining a free hand with which to respond to the crisis. In brief, availed of the economic resilience that a mixed economy had produced, as well as an administrative capacity derived from regulatory experience, Mahathir was able to avoid the IMF. Instead, he introduced a package of capital controls, the main elements of which pegged the Malaysian currency to the U.S. dollar at a moderately low rate, banned the currency's trade offshore, and prohibited foreign investors from repatriating capital gains that had been made on the sale of local equities [*Beeson, 2000; Haggard and Low, 2000*].

There is no doubt that among the agendas pursued through these controls lay an explicitly political one, insulating the Kuala Lumpur Stock Exchange, for example, from the international fallout over Anwar's purging and the corporate bailouts that were undertaken. But in economic terms, the low ringgit peg also stopped more mundane speculation against currency and stock valuations, while renewing export competitiveness. In addition, the offshore trading ban halted capital flight, allowing reductions in interest rates and business expansion. Thus, local business elites, their planning horizons extended and their operations more easily financed, acclaimed the capital controls. Some prominent international economists and financial analysts also gave their approval, however grudging [*Kaplan and Rodrik, 2001; Asia Times, 1999*].

Further, with the capital controls in place, the government deployed its administrative capacity more deeply, setting up a pair of new state agencies through which to revive the banking system. Briefly, Danamodal undertook the recapitalisation of banks, while Danaharta, a national asset management company, disposed of the banks' collateral that the government acquired. In this way, nearly 75 per cent of the banks' US$12 billion in non-performing loans were resolved by the end of 2001, generating fresh loan stock for local businesses.

However, despite the parallel formation of the Corporate Debt Restructuring Committee, comparatively little was done during this time to undertake equivalent reforms in the corporate sector. Instead, the government resorted to bailouts, the most conspicuous beneficiaries of which were Mirzan Mahathir and Daim's top proteges, Halim Saad, Abdul Rahman Maidin, and Tajudin Ramli [*Haggard, 2000: 162–71*]. Mirzan's indebted shipping interests were bought out by the national petroleum company, Petronas,

Renong's debts were partially met by drawing on the group's only profit-making subsidiary, a government tollway concession, as well as money taken from the Employees' Provident Fund (EPF), the state-run superannuation scheme. Malaysian Resources, a construction and media group headed by Rahman Maidin, also received EPF assistance. Further, when Malaysia Airline System, the national carrier, began to founder, the government purchased the shares held by its chairman, Tajudin Ramli, at pre-crisis rates that greatly advantaged him [*Far Eastern Economic Review (FEER), 2000: 70–74*].

Accordingly, Malaysia's government, more than its counterparts in Thailand, South Korea, and Indonesia, was able to resist immediate pressures for neo-liberal reforms. Instead, through the recapitalisation of banks (efficiently undertaken) and the provision of bailouts (selectively offered), the government perpetuated key networks of UMNO politicians and local business elites. What is more, the earlier compatibilities between foreign direct investors in globalised enclaves and local business elites in protected markets persisted, with the low currency peg sparking an export-led recovery during 1999–2000.

IV. AFTER THE CRISIS: NEO-LIBERAL REFORMS

It soon became clear that despite Malaysia's economy having displayed greater resilience than those of other countries affected by the crisis, its recovery, though rapid, was only partial. While foreign direct investors remained active in globalised enclaves, foreign portfolio investors had been made wary by the crisis of local business elites and the 'excessive' profits that had been generated through protected local markets [*Jomo, 2001: 137–51*]. Their suspicions had been heightened too by those parts of the capital controls that had hampered their repatriation of capital gains, even if the package had been more broadly sanctioned by many economists. In these circumstances, Malaysia's equity markets, while avoiding collapse, failed to regain their earlier vigour.

Furthermore, the bailouts given to Malay business elites, contrasting with the uncertainties endured by social forces, soon fuelled more mass-level resentments than any sense of group worth. Hence, these business elites, once venerated as '*korporat Melayu*' (corporate Malays), were widely derided now as 'cronies' and 'proxies'. As Jesudason warns, even within a solidary ethnic community, mass-level forbearance of material inequalities is not eternal. Though mass followings may accept inequalities for a time 'because they take the increase of living standards of their peers as a predictor of their future situation .... the hope for future benefits must at some point square with the receipt of actual benefits' [*Jesudason, 1987: 11–12*]. But elite-level

bailouts now diminished mass-level prospects, with grievances over the government's having drawn on worker savings in the EPF swelling into an acutely felt sore point.

Street protests broke out in Kuala Lumpur during late 1998. The government was able to contain them, but was then confronted by a more disciplined reform movement, one galvanised by resentments over the punishing of Anwar, the bailouts given to Malay business elites, and the broader patterns of corruption to which, because of economic uncertainties and hardship, social forces were no longer inured. Further, the Malay segment of this movement intensified its religiosity, perceiving that social injustices were now so pervasive that they could only be resolved through a deeper Islamisation of state institutions.

This social ferment enabled PAS to make great gains in the general election held in late 1999, with the party capturing upwards of half of the ethnic Malay vote [*Weiss, 2000; Case, 2001*]. Thus, while Malaysia's first-past-the-post system greatly distorted the conversion of popular vote totals into the parliament's 193 seats, PAS nonetheless increased its share dramatically from seven to 27, while UMNO's fell from 88 to 72, ousting a half-dozen cabinet ministers and deputies. In addition, PAS won control over two state assemblies, the traditional 'Malay states' of Kelantan and oil-rich Terengganu. Accordingly, the 1999 election did less to legitimate the UMNO-led government's return to power than to register the rise of PAS.

Thus, foreign portfolio investors and local Malay followings, duly estranged from local business elites, demanded from above and below that the government embrace neo-liberal reforms. Further, during late 2000, foreign direct investment and export markets began also to weaken. In this situation, the government appeared finally to relent. It thus let most of the capital controls package lapse, with only the peg and the offshore trading ban remaining in place. And most of the business elites who had benefited from bailouts were now stripped of their positions and assets. At this juncture too the government began to refurbish its regulatory apparatus, giving new attention to neo-liberal reforms and good governance agendas. Indeed, by mid-2002, a monitoring unit within Australia's Department of Foreign Affairs evaluated Malaysia as second only to Singapore in 'lead[ing] Southeast Asia in corporate governance, with excellent regulations, open, flexible markets and an active community of relevant non-government organisations' [*EAU, 2002: 134*]. Let us trace this policy shift in greater detail.

In mid-2001, Daim Zainuddin, the topmost patron of Malay business elites, was forced from the cabinet by Mahathir. Daim's involvement in the bailouts, especially his arrangements for Tajudin Ramli, had triggered such popular outrage that Mahathir now found it expedient to remove him [*FEER, 2002d:*

40]. The removal of Daim opened the door also for the ouster of many of his protégés from their corporate positions. With respect to Tajudin, the Securities Commission even blocked his attempts later to salvage such corporate stakes as he retained [*FEER, 2001b: 56*], while police investigations were launched against him for false invoicing.

A year after Daim's removal, Mahathir announced his own resignation as prime minister, to take effect in late 2003. While the crisis had sharply diminished Mahathir's achievements, transposing his image from that of a rapid industrialiser and social conciliator into an electoral liability for his party, he at a stroke recovered some of his earlier standing. In voluntarily resigning, Mahathir belied the opposition's depicting him as a despot clinging interminably to power. One notes too that his resignation was preceded by that of his second son, Mokhzani, from his corporate positions, helping to dampen criticisms of first-family nepotism [*FEER, 2001a*].

As the networks between local business elites and top politicians were dismantled, the government introduced more regularised procedures in both public and corporate sectors, replete with master plans and codes of conduct geared to neo-liberal reforms and good governance. During this period, the government issued in rapid succession the Capital Market Masterplan, the Financial Sector Masterplan, the Code of Conduct for Market Institutions, and the Code of Corporate Governance.

With new doctrines in place, reforms began with state-owned enterprises, most notably the telecommunications and energy utilities, Telekom and Tenaga. By introducing what was now regarded as corporate best practice, the positions of board chairman and chief executive officer were separated [*EAU, 2002: 142*]. Similarly, state agencies that held listed assets, whether to rehabilitate the interests of those Malay business elites who had been ousted, to undertake cross-ethnic redistribution, or to fulfil developmental visions, began in some instances to increase their holdings, then reform their management structures. Through Danamodal and Danaharta, the Employees' Provident Fund, the National Equity Company (PNB, tasked with acquiring equities on behalf of indigenous followings), Petronas (the national petroleum company), Ministry of Finance Inc. and Khazanah Holdings (the government's investment arms), the state came to be the largest holder of listed firms in the region after the governments of China and Singapore [*EAU, 2002: 136*]. Such vast state ownership is often looked upon critically as a wellspring of corruption and inefficiencies. But in the Malaysian case, the re-nationalisation of assets was viewed as an improvement upon the business practices of the prior owner-managers, the Malay business elites.

Danaharta replaced the directors and managers of the firms it acquired with special administrators, rehabilitating these entities before returning them to the market [*EAU, 2002: 139*]. The EPF, holding five percent of the Kuala

Lumpur Stock Exchange's (KLSE) capitalisation through some 70 companies, together with the PNB tried also to improve the governance of the companies in which they invested, setting up surveillance units to monitor managerial performance [*EAU, 2002*]. Finally, in restructuring Malaysia Airlines, the government fashioned a 'special purpose vehicle' in order to isolate, then revive money-losing activities, enabling more profitable operations like international travel and freight forwarding to persist under private ownership in competitive market conditions [*FEER, 2002a*].

The government extended its neo-liberal reforms and good governance agendas into corporate sector dealings. The defence minister, Najib Razak, tipped as a prime ministerial contender, called openly for the better regulation of Malay business elites:

> The efforts to create a new class of *bumiputera* [indigenous] business leaders have fallen short of our expectation, [though] not because it is the wrong strategy. What did go wrong – and it is more evident that there has been a lack of controls placed on these icons of success – is in the management and governance of the companies they lead [quoted in *The Star, 2002c: 22*].

Central to this new regulatory thrust was the Securities Commission which, while formed in 1993 to enforce corporate compliance with listing rules and accountancy standards, was strengthened by the provisions of the new Capital Market Masterplan. It was given force too by the personal interventions of Nor Mohamed Yakcop, the prime minister's special economic advisor [*FEER, 2002b*]. In emphasising executive professionalism over entrepreneurial acquisitiveness, the commission began to impose firewalls between managerial roles and corporate ownership [*The Star BizWeek, 2002: 14*]. Further, in giving new attention to minority shareholders, it began to investigate ways in which they could be given cumulative voting rights [*EAU, 2002: 145*]. A new code on mergers and acquisitions was also introduced, whereby shareholders would be able to consider all takeover offers.

At the same time, the KLSE began to enforce listing requirements which, in the view of some analysts, came to be 'amongst the best in East Asia and similar to London Stock Exchange Rules'. Directors of listed companies were now required to address matters of governance in their annual reports. Where found negligent, listed companies, as well as individual directors could be investigated by the KLSE. By mid-2001, the KLSE had conducted nearly 500 investigations, while taking more than 100 enforcement actions [*EAU, 2002*]. Similarly, new accounting standards, introduced by the Malaysian Accounting Standards Board and recorded in law, were

evaluated as exceeding US standards. The audit committees of listed companies had henceforth to be chaired independently, while all committee members were to be trained in the Malaysian Code of Corporate Governance [*EAU, 2002: 144–45*].

Lest one fully equate these new reforms in Malaysia with the tenets of the Washington consensus [*Beeson and Islam, this volume*], one notes the greater emphasis that was also given to Islamic banking and financial instruments. Mahathir himself outlined the ways in which lending practices sanctioned by Islam, replacing the levying of interest charges upon borrowers with a profit-sharing that establishes lenders and clients as partners, may discourage the speculative activities and asset bubbles that featured so prominently in the crisis. Through profit-sharing arrangements, he has argued, lenders have a greater stake in the long-term viability of the ventures in which they take part.

To this end, the government advanced a parallel banking sector based on *syariah* principles. Alongside Bank Islam Malaysia chartered in 1983 and the Interest-free Banking Scheme and Islamic Interbank Money Market introduced during the early 1990s, yet another Muslim banking institution, Bank Muamalat Malaysia, was formed in 1999 [*New Straits Times, 2002a: S1*]. Private banks also began to offer services sanctioned by Islam, while Bank Negara exercised regulatory control through the Syariah Council. As evidence of the probity with which these schemes were seen to administered, Azman Hashim, chairman of a major banking entity, the AmBank Group, observed that half of his customers for Islamic banking facilities were non-Muslims: 'This is good. For us to survive in the long term, Islamic banking must be able to compete with conventional banking and be as good, if not better' [quoted in *The Edge, 2002b: 70*].

Finally, this strengthened regulatory apparatus was complemented by a range of new NGOs, including the Malaysian Association of Asset Managers and the Minority Shareholders' Watchdog Group, geared to the protection of client and investor interests [*The Edge, 2002a: 36*]. Additional groups included the Malaysian Institute of Corporate Governance, the Federation of Public Listed Companies, the Malaysian Institute of Accountants, and a Malaysian chapter of Transparency International.

In acknowledging these new commitments to market reforms and good governance, Moody's, Fitch, and Standard and Poor's upgraded their ratings of sovereign risk in Malaysia during 2001. Foreign portfolio investment began to trickle back in, at least briefly, pushing up the KLSE's valuation by nearly 20 per cent at year's end. In mid-2002, the *Far Eastern Economic Review* proclaimed that '[t]oday, Malaysia's banks are among the best in the region'. It also noted that Danaharta 'could be the first such global agency to turn a profit'. And it quoted the regional head of ABN Amro in Singapore who opined that '[a]part from Korea,

Malaysia could be the best-regulated and most transparent market in Asia right now' [*FEER, 2002c: 40*].

In sum, while Malaysia weathered the initial shock of the economic crisis, avoiding the IMF in order to administer capital controls and bailouts, its once robust mixed economy only partially recovered. Foreign portfolio investors had been made wary by the crisis of local business elites and of what they perceived as the government's capricious interventions. Further, their doubts resonated with Malay mass publics who, even if distrusting market liberalisation, seemed to view it as preferable to the on-going promotion of co-ethnic tycoons. Hence, as foreign direct investment and export markets began also stagnate, the government turned finally to neo-liberal reforms and good governance agendas.

V. NEW STATIST INTERVENTIONS

Despite Malaysia's reforms and improved governance, foreign investors mostly remained indifferent. Foreign direct investors were deterred by rising wage rates, coupled with declining export markets for electronics in the United States, especially after 11 September 2001. They fretted too over Islamic resurgence and religious terrorism across much of maritime Southeast Asia. These investors did not abandon Malaysia's globalised enclaves. But they reduced their stakes, retrenching large numbers of workers while shifting many of their activities to China [*BizAsia.com, 2003*].

Foreign portfolio investors also remained guarded, only briefly probing Malaysia's equity markets [*FEER, 2002c: 41*]. As one key example, the world's largest public pension fund, the California Public Employees' Retirement System (CalPERS), with nearly US$2 billion invested in emerging markets, abruptly sold upwards of US$300 million in Malaysian equities in 2002. Sceptical of the government's reforms, CalPERS officials cited the country's having scored lowly in terms of market openness, as well as in three newly specified areas of good governance, namely, transparency, political stability, and acceptable labour practices [*The Star-Business, 2002: 1; see also FEER, 2002c: 41*].

At the same time, to the extent the government reformed local markets, it alienated many politicians in UMNO whose fortunes depended on patronage, as well as their networks with local business elites that facilitated exchanges of payments and 'contributions'. Thus, as Mahathir worked to reduce patronage in his party, he soon encountered resistance. For example, prior to UMNO's holding its assembly election in mid-2000, a process by which party officers are selected, Mahathir banned the campaigning for posts that fuels 'money politics', that is, the promise of government licences, business contracts, overseas holidays, and vulgar cash packets that typically sway

delegate sentiments. In addition, after arranging for his own presidency of the party to remain uncontested, he made known the identities of the candidates he preferred for the party's three vice-presidencies. However, with delegates angered by Mahathir's rendering his own post inviolable while trying to rein in their rewards, they rejected his slate in order to elect vice-presidents who were more plainly identified with patronage [*Chin, 2000: 19–23*].

In addition, during preparations for UMNO's divisional elections held a year later, choosing the delegates who would attend the next assembly in 2002, they rebuffed proposals made by Mahathir to limit rent-seeking, in particular, his suggestion that 'rich' aspirants be barred from contesting these elections, while existing divisional heads be prohibited from bidding on state contracts [*The Star, 2001a*]. Thus, as Mahathir reflected on his declining capacity to control party patronage, he lamented, 'I have tried asking nicely, begged and even cried.... Money politics is the worst kind of disease which can cause UMNO to rot from within' [*The Star, 2001b*]. His new deputy, Abdullah Badawi, warned too about the causal links between patronage and mass-level resentments: '[t]he perception that UMNO is a corrupted institution has to be changed. UMNO needs to take firm steps to restore its credibility and image so that some people no longer view it with contempt or disgust' [quoted in *The Australian, 2001*].

But with neo-liberal reforms having failed to rekindle foreign investment, yet testing the loyalties of top politicians in UMNO, the government began once again to change tack. Scouring for ideological ballast, Abdullah Badawi now asserted the futility of regulatory improvements, especially amid the inequalities posed by globalisation.

> Developing economies facing imminent economic collapse are roundly condemned, pilloried, and punished by global institutions when they bail out troubled companies. We are accused, among other things, of cronyism and corruption. These same global institutions turn a blind eye to the same practices when large companies in rich nations are bailed out [quoted in *The Star, 2002a: 2*].

Thus, during 2002, the government began to canvass a 'reinvention' of Malaysia's economy [*Pereira, 2002*]. Though never fully specified, this campaign appeared to possess two prongs: a downward shift from global to regional markets, made manifest in an 'ASEAN+3' secretariat (that is, the ASEAN countries plus Japan, China, and Korea) to be headquartered in Kuala Lumpur, complemented by a renewed promotion of local markets, especially in agriculture, small business, and services [*FEER, 2002–03*]. Meanwhile, the provisions of the 2002 national budget indicated the government's new ambivalence over foreign investment, leaving undimin-

ished what is by regional standards of high corporate tax rate of 28 per cent.

While de-emphasising Malaysia's role in the global economy, the government began likewise to step back from its regulatory apparatus, one whose formal provisions had been approaching international standards. With respect to state-owned enterprises, Tenaga raised fresh doubts over its transparency, refusing to inform investors about large amounts of funding that it had set aside to meet 'contingent liabilities for claims by third parties' [*The Edge, 2002c: 59*]. Petronas, though regarded as better managed than other state-owned enterprises, persisted in issuing only 'abbreviated company reports' [*EAU, 2002: 136*], enabling it to be tapped by the government for 'off-budget' finance. And the EPF, ostensibly a 'pioneer of shareholder activism', declared its lowest dividend in four decades of operation, yet refused to disclose to members the extent of 'paper losses' that had it had incurred during 2002–03 or the equity investments in which these losses were made [*Lim, 2003*].

In the corporate sector too regulations were relaxed. The *New Straits Times* [*2002b: B2*], while closely aligned with the government, assessed the national bourse during this period in the following terms: '[f]or all its rules and regulations, the current KLSE is but a club made up of broking firms'. Collusive practices remained equally entrenched in the accounting profession. Despite the regulation undertaken by the MIA, local accountancy firms were not yet been required to disclose their fee income, profits, or the remuneration of their partners, suggesting that they remain even less transparent than the companies they audit [*The Star BizWeek, 2002: 6*]. Finally, while codes of corporate conduct were still regularly unveiled, including the *Rukun Niaga Malaysia* that targets the under-declaration of business income, the selling of counterfeit goods, and the retailing of products beyond their expiry date, none were formally incorporated into the overarching Companies Act. Instead, it has been left to an NGO, the Business Ethics Institute of Malaysia, merely to 'brief the business community ... and remind [it] about the need to practice responsible corporate behaviour' [*The Star, 2002b: 23*].

Accordingly, as globalised enclaves were de-emphasised, the protected local markets in which local business elites flourish seemed now to be reconstituted. Most notably, one observes during this period the debut of 'a hitherto obscure, reclusive businessman' [*Gomez 2003: 8*], Syed Mokhtar Al-Bukhary, his personal 'ambitiousness' and 'lavish' contributions to Islamic programmes evidently appealing to Mahathir. Thus, he quite suddenly emerged as the 'fastest rising businessman in corporate Malaysia [with] assets [that] include former state-owned companies that no one without connections could have acquired' [*FEER, 2002e: 43; see also FEER, 2003:*

40–43; The Edge, 2002d: 70–73]. For example, Mokhtar gained control over Pernas, once a government company holding assets in trust for indigenous followings, and Malaysia Mining Corporation, now an infrastructure and utilities conglomerate. His highly diversified interests also extended to port facilities at Tanjong Pelepas, an airport in the southern state of Johor slated to become an air cargo hub, water treatment companies, and a listed independent power producer holding contracts with Tenaga.

However, this renewed protection of local markets, while perhaps placating top politicians and the business elites with whom they were allied, risked reigniting social grievances. This grew more likely amid the continuing aloofness of foreign investors and economic uncertainties, exacerbating intra-communal disparities. Thus, as another round of elections drew closer, the government recollected the ways in which its mass-level constituencies had in the last contest been alienated. Mahathir was also succeeded by Abdullah Badawi late in 2003, a figure whose political requisites and personal preferences now precipitated another tack toward reformism.

VI. RETURN TO REFORM?

With patronage and corrupt practices persisting, even intensifying throughout 2003, the opposition PAS mobilised its followings by fusing its call for political accountability with demands for an Islamic state. The government responded by searching for ways by which to contain PAS's appeal. It began by branding PAS as 'extremist', alluding to the party's calling for holy war after 11 September and US retaliation in Afghanistan. It also stoked suspicions over the party's involvement in terrorism, particularly after the discovery of *Jema'ah Islamiah* cells in Malaysia. Many dozens of PAS members, including the son of the chief minister of Kelantan, were then detained under country's Internal Security Act, permitting indefinite detention without trial. But though these claims may have solidified non-Muslim support for the government's ruling coalition, UMNO's rural Malay following did not appear to have been fully re-energised.

Thus, while seeking to tar PAS with the brush of extremism, the government worked also to limit the competitiveness of elections more tightly. To this end, in collaboration with the country's Electoral Commission, the government carried out a highly partisan exercise in district re-delineation, defying demographic trends in order grossly to increase the parliamentary seats of those states in which it was strongest, while refusing any increase in the northern peninsular states held by PAS [*Sunday Star, 2002*]. Rather, these traditional 'Malay states' were subjected to intricate gerrymandering, diluting the heavily Malay constituencies that were

receptive to PAS's Islamicising appeals with ethnic Chinese voters, adjudged at this stage to be more 'reliable' [*Putucheary and Othman, 2003: 44*]. In addition, the government passed amendments to the Election Offences Act, burdening opposition candidates with vastly increased electoral deposits, while rendering their campaigning more vulnerable to severe and quite arbitrary penalties [*Hai, 2003*]. Restrictions on communication and assembly also remained in place, with the government – or constituent parties in the UMNO-led coalition – owning nearly all electronic and print media outlets. Political meetings also remained banned, preventing PAS from holding the mass rallies that served as alternative conduits for mobilisation and fund-raising [*Case, 2004*].

But even while truncating electoral procedures and civil liberties in these ways, what stands out from the perspective of this analysis is Badawi's also returning to neo-liberal reforms. Recognising that renewed grievances over patronage and corrupt practices had invigorated mass-level support for PAS, Badawi suddenly put on 'indefinite hold' several 'mega-projects', including a US$3.8 billion railway electrification contract that Mahathir, just prior to retiring, had snatched back from some Chinese and Indian firms to which it had been awarded, then passed on to Syed Mokhtar Al-Bukhary. Badawi declared too that all sizeable state contracts would henceforth be issued through open tender bidding. He proposed that mutual funds be created through which more Malaysians might be come shareholders, 'to reduce the dominance of tycoons' [*New York Times, 2004a*]. And he gave new force to his reformism by allowing the country's Anti-Corruption Agency (ACA), closely tethered to the Prime Minister's Department, to bring charges against a sitting cabinet member, Khasitah Gaddam, the minister of Land and Cooperative Development, and an ethnic Chinese tycoon, Eric Chia, once the head of the country's national steel maker, Perwaja Steel. Shortly afterward, Shaharin Shaharudin, a former chief executive officer of PNB, was also charged with fraud, 'rattl[ing] Malaysia's clubby business and political establishment' [*Wall Street Journal, 2004b*]. The ACA was said also to be completing an additional 18 investigations of high-level politicians, bureaucrats, and business elites [*FEER, 2004b: 13*].

Moreover, Badawi displayed new concern over Malaysia's budgetary deficits, which during Mahathir's last year of deficit spending had reached 5.5 percent of GDP, exceeded in Southeast Asia only by the 'chronically troubled Philippines' [*FEER, 2004b: 14*]. Hence, in seeking to restore fiscal balance, Badawi appointed Nor Mohamed Yakcop, regarded as a technocrat 'rather than a political ally' [*New York Times, 2004a*], as his second finance minister. He also oversaw the sale of some RM9 billion in stock that various government investment agencies had acquired upon the demise of Malay

business elites, even if only to other state institutions like Petronas and the EPF. At the same time, revenue collection was strengthened, with Badawi ordering that 'wealthy tax dodgers' be targeted, especially big construction firms. In this situation, Lim Kit Siang, the leader of the opposition Democratic Action Party (DAP) opined, 'the new PM's anti-corruption drive is populist and is making it very difficult for us this time around' [*FEER, 2004a*].

Thus, when Malaysia's general election was held in March 2004, Badawi's neo-liberal reforms, braced by his heightened, though 'progressive' Islamic religiosity, enabled the government to regain the mass-level constituencies that it had lost in the previous election. Indeed, the UMNO-led coalition captured 90 percent of parliament's seats, rolling back PAS's advance across the 'Malay states'. At the same time, foreign portfolio investors prepared to return, with 'fund managers ... venturing again to Malaysia to visit companies they have not looked at in years' [*New York Times, 2004a*]. And with electronics and commodities markets also robust, fuelling an 8 percent growth in exports, anticipation mounted of a great stock market surge [*FEER, 2004a: 42; see also Wall Street Journal, 2004a: C16*].

However, if through these neo-liberal reforms Badawi re-energised foreign direct and portfolio investors and mass-level constituencies, how were UMNO politicians and business elites likely to react? While too soon to tell, analysts warn of a powerful 'old guard', 'vested interests', and 'warlords' in UMNO, and they speculate that 'the crackdown [on corruption] seems almost certain to produce a backlash within [the] party' [*FEER, 2004a: 13; New York Times, 2004a*]. At the same time, the prospect of additional investigations and charges 'has unnerved much of corporate Malaysia' [*FEER, 2004a: 14*]. In this analysis, UMNO politicians and the business elites with whom they are allied may have been stayed by Badawi's electoral mandate, but they are merely biding their time.

On the other hand, it may be that for the first time since the crisis of nearly seven years ago, some of the compatibilities between globalised enclaves and protected local markets are being reconstituted, with Badawi shrewdly navigating a middle course between statist inventions and market forces. Thus, while a sitting minister may have been arrested prior to the election, Badawi enlarged his cabinet afterward. He also retained four ministers against whom strong allegations of corruption have been made, including the international trade and industry minister, the works minister, and a minister in the Prime Minister's Department, 'blighted by a scandal over the award of taxi licenses' [*New York Times, 2004b*]. Thus, suggested the DAP leader, Lim Kit Siang, 'if integrity and the perception of integrity are among the indispensable criteria for the selection of cabinet ministers, the first Abdullah cabinet has failed the acid test' [*quoted in Malaysiakini, 2004*].

Further, despite the reformist policy swing, it has been noted that Badawi's son, Kamaluddin, while once a minor player in Malaysia's business scene, has recently emerged as one of the country's wealthiest indigenous business elites. Further, a police investigation into Kamaluddin's listed company, Scomi Group, over alleged involvement in the manufacture of components for Libya's nuclear weapon's programme swiftly cleared the company of any 'wrongdoing', prompting Wan Azizah Wan Ismail, leader of the opposition Keadilan (National Justice) party and wife of Anwar Ibrahim to remark:

> Abusing diplomatic machinery and resources to defend a private company owned by the son of the prime minister is clear proof of how cronyism and nepotism have been shamefully institutionalised ... in Malaysia [*quoted in Wall Street Journal, 2004c*].

It may be too that the margins of Badawi's electoral victory, rather than freeing him to extend his reformist progress, may permit him now to restrain it. In this scenario, he would perpetuate some of the neo-liberal reforms that sustain foreign direct investors and mass-level constituencies. But he would also resume the statist interventions that gratify UMNO politicians and business elites. However, while such artful modulations might make considerable progress toward restoring pre-crisis patterns, there can be no full closing of the circle between globalised enclaves and protected local markets. It remains unlikely that the fifth element in this configuration, foreign portfolio investors, will agree any time soon to provide the final link. Having been made wary by the crisis of the activities that generate rents, bubbles, and excessive returns, they are more likely now to avoid protected local markets and promoted business elites, demanding instead that neo-liberal reforms persist at some level. Nonetheless, during his first months in office, Badawi has shown much skill in returning to an intermediate course of reform, enabling him to bridge the post-crisis contradictions between globalised enclaves and protected local markets in ways that recall some pre-crisis compatibilities.

VII. CONCLUSION

Prior to the crisis of 1997–98, the prosperity and stability of Malaysia's political economy derived from globalised enclaves (geared to export manufactures overseen by foreign direct investors) and protected local markets (inhabited by politicians, principally in UMNO, and the business elites to whom they were allied). Further, these twin arenas co-existed, indeed, gained important compatibilities. Foreign direct investors secreted some surpluses through which to fund UMNO politicians and promote

business elites, partnering closely in ancillary networks. Foreign portfolio investors, attracted by the high returns that protected local markets can generate, gave additional impetus to UMNO politicians and business elites. And the general economic growth that resulted placated mass-level constituencies, with ethnic rivalries and Islamist radicalism contained.

In perpetuating these compatibilities, Malaysia's government adopted an intermediate policy course, making artful use of both statist interventions and market forces. Thus, while a sophisticated regulatory apparatus was in place, it was only selectively deployed, extending the political economy's mixed features of reasonable governance and middling corruption. Further, such governance as existed, made manifest in adequate banking regulation and limited corporate indebtedness, enabled Malaysia to avoid the worst of the Asian economic crisis. Indeed, the government's regulatory capacity enabled it explicitly to reject the neo-liberal prescriptions dispensed at this juncture by multilateral agencies and the Western governments to which they were beholden. Instead, the government devised an ambitious set of controls on capital.

Many analysts, even those who were initially critical of these capital controls, later conceded their effectiveness, citing the recovery of Malaysia's economy. But as this paper has demonstrated, the controls merely concealed a new dissociation that had set in between globalised enclaves and protected local markets. Thus, a closer inspection of the recent record reveals tensions in the configurations of foreign investors, UMNO politicians and local business elites, and mass-level constituencies. Specifically, foreign portfolio investors, in reappraising the worth of protected local markets and business elites, failed to reinvest at pre-crisis levels. The enthusiasm of foreign direct investors for globalised enclaves began also to wane. And with the government responding by propping up some local business elites with bailouts, mass-level constituencies encountering uncertainties grew proportionately alienated, hence strengthening opposition parties, especially PAS.

This new dissociation between globalised enclaves and protected local markets was reflected in cleavages between foreign investors and mass-level constituencies on one side and UMNO politicians and local business elites on the other. Thus, however belatedly, the government was pressed finally to let most of its capital controls lapse, then undertake some neo-liberal reforms. Accordingly, the government refurbished its regulatory apparatus, enabling it to pursue good governance agendas in both public and corporate sectors.

But while Malaysia's political economy soon displayed an even greater convergence with the tenets of Western capitalism than those of other countries affected by the crisis, it brought only modest results in the post-crisis environment, leading to two important conclusions. First, Malaysia's

regulatory apparatus enabled it initially to resist neo-liberal reforms, yet later to implement them effectively. But either way, in the aftermath of the crisis, foreign investors mostly remained indifferent. As the decision by CalPERS shows plainly, foreign portfolio investors, while once enthralled by protected local markets, have today changed their outlooks. Yet they sometimes fail equally to respond when neo-liberal reforms are put in place. What is more, the ambiguities in the calculations made by foreign direct investors are shown by their shift from Southeast Asia to China, suggesting that governance may not matter so much after all, or at least that its absence can be offset by other kinds of market attractions.

Second, amid the shortfalls of foreign investment that resulted, the swiftness with which neo-liberal reforms were abandoned indicates the resilience of the ties between UMNO politicians and local business elites. In a dramatically altered setting in which the compatibilities between globalised enclaves and protected local markets were eroded, the renewal of patronage and corrupt practices at pre-crisis levels, while perhaps making little difference to foreign investors at this juncture, deeply alienated mass-level constituencies. One is thus struck by the rapaciousness of UMNO politicians even as their actions diminished their party's standing and perhaps political stability. It was during this juncture too that a new member of the local business elite, Syed Mokhtar Al-Bukhary, commenced his extraordinary rise, underscoring the vibrancy of the nexus in Malaysia between politics and business.

However, in Malaysia's latest post-crisis phase, it may be that the earlier compatibilities between globalised enclaves and protected local markets have been at last partly restored. To be sure, the prime ministership of Abdullah Badawi has been strongly identified with neo-liberal reforms, evoking yet another policy turn, this time from statist interventions to market forces within an overall post-crisis record that must characterised as erratic. But while some neo-liberal reforms have indeed been implemented – most importantly, the cancellation of some 'mega-projects' and the insistence on open tender bidding – one notes too the reappointment of cabinet ministers widely regarded as benefiting from patronage and the startling enrichment of new the prime minister's son.

What prevents the full restoration of functionality between globalised enclaves and protected local markets, of course, is the changed outlooks of foreign portfolio investors. No longer looking benignly on the patronage and corrupt practices that once generated high returns, they insist in the post-crisis setting on neo-liberal reforms. But Badawi's seeming ability to rekindle the interest of some of these investors today, even while acting in ways that have kept UMNO politicians and business elites in check, suggests that while compatibilities have declined, he may possess the skills with which to finesse

the differences. Thus, while it is too soon to tell, it may be that under new management, Malaysia's political economy has regained some of its earlier equilibrium.

REFERENCES

Asia Times, 1999, 31 August, available at http://www.atimes.com/

The Australian, 2001, 21 June, Australia.

Beeson, M., 2000, 'Mahathir and the Markets: Globalisation and the Pursuit of Economic Autonomy in Malaysia', *Pacific Affairs*, Vol.33, No.3.

BizAsia.com, 2003, 'Malaysia allows Foreign Investors more Leeway', 23 June, available at: http://www.bizasia.com/investment_/dveg4/malaysia_allows_foreign.htm

Case, W., 1999, 'Politics Beyond Anwar: What's New?', *Asian Journal of Political Science*, Vol.7, No.1.

Case, W., 2001, 'Malaysia's General Elections in 1999', *Asian Studies Review*, Vol.25, No.1.

Case, W., 2003, 'Thorns in the Flesh: Civil Society as Democratizing Agent in Malaysia', in D.C. Schak and W. Hudson (eds.), *Civil Society in Asia*, Aldershot: Ashgate.

Case, W., 2004, 'Malaysia', in Adrian Karatnycky and Sarah Repucci, (eds.), *Countries at the Crossroads*, New York: Freedom House.

Chin, J. 2000, 'Mahathir's Black Eye', *New Zealand International Review*, Vol.25 (Sept./Oct.).

Economic Analytical Unit, 2002, *Changing Corporate Asia: What Business Needs to Know, Volume 2: Regional Economy Studies*, Canberra: Department of Foreign Affairs and Trade.

The Edge, 2002a, 5 August, Kuala Lumpur.

The Edge, 2002b, 21 October.

The Edge, 2002c, 11 November.

The Edge, 2002d, 18–24 December.

Far Eastern Economic Review, 2000, 7 December, Hong Kong.

Far Eastern Economic Review, 2001a, 14 June.

Far Eastern Economic Review, 2001b, 15 November.

Far Eastern Economic Review, 2002a, 14 February.

Far Eastern Economic Review, 2002b, 14 March.

Far Eastern Economic Review, 2002c, 23 May.

Far Eastern Economic Review, 2002d, 27 June.

Far Eastern Economic Review, 2002e, 1 August.

Far Eastern Economic Review, 2002–03, 26 December–2 January.

Far Eastern Economic Review, 2003, 29 May.

Far Eastern Economic Review, 2004a, 4 March.

Far Eastern Economic Review, 2004b, 18 March.

Furnivall, J.S., 1956, *Colonial Policy and Practice*, New York: New York University Press.

Gomez, E.T., 2002, 'Political Business in Malaysia: Party Factionalism, Corporate Development, and Economic Crisis', in E.T. Gomez (ed.), *Political Business in East Asia*, London: Routledge.

Gomez, E.T., 2003, 'Corporate Malaysia Under Mahathir: Where Have All the Capitalists Gone', *Aliran Monthly*, Vol.23, No.10.

Gomez, E.T. and K.S. Jomo, 1997, *Malaysia's Political Economy: Politics, Patronage and Profits*, Cambridge: Cambridge University Press.

Haggard, S., 2000, *The Political Economy of the Asian Financial Crisis*, Washington: Institute for International Economics.

Haggard, S., and L. Low, 2000, 'The Political Economy of Malaysia's Capital Controls', in S. Haggard, *The Political Economy of the Asian Financial Crisis*, Washington: Institute for International Economics.

Hai, Lim Hong, 2003, 'New Rules and Constituencies For New Challenges? Appearances of unfairness can erode the credibility of the Election Commission', *Aliran Monthly*, available at: http://www.aliran.com/monthly/2003/6j.html.

Hwang, I.-W., 2003, *Personalized Politics: The Malaysian State under Mahathir*, Singapore: Institute of Southeast Asian Studies.

Hilley, J., 2001, *Malaysia: Mahathirism, Hegemony, and the New Opposition*, London: Zed Books.

Jesudason, J.V., 1989, *Ethnicity and the Economy: The State, Chinese Business and, Multinationals in Malaysia*, Singapore: Oxford University Press.

Jomo K.S., 1998, 'Malaysia: From Miracle to Debacle', in K.S. Jomo (ed.), *Tigers in Trouble: Financial Governance, Liberalization, and Crises in East Asia*, London: Zed Books.

Jomo, K.S., 2001, 'Capital Flows', in K.S. Jomo (ed.), *Malaysian Eclipse: Economic Crisis and Recovery*, London: Zed Books.

Jomo, K.S. and E.T. Gomez, 2000, 'The Malaysian Development Dilemma', in H.K. Mushtaq, and K.S. Jomo (eds.), *Rents, Rent-seeking and Economic Development: Theory and Evidence in Asia*, Cambridge: Cambridge University Press.

Kaplan, E. and D. Rodrik, 2001, 'Did the Malaysian Capital Controls Work?', unpublished paper, Harvard University, Cambridge, MA, February, available at: http://ksghome.harvard.edu/~.drodrik.academic.ksg/Malaysia%20controls.PDF.

Khan, M., 2000, 'Rents, Efficiency, and Growth', in Mushtaq H. Khan and K.S. Jomo (eds.), *Rents, Rent-seeking and Economic Development: Theory and Evidence in Asia*, Cambridge: Cambridge University Press.

Khoo, B.T., 2000, 'Economic Nationalism and its Discontents: Malaysian Political Economy after July 1997', in Richard Robison, Mark Beeson, Kanishka Jayasuriya and Hyuk-Rae Kim (eds.), *Politics and Markets in the Wake of the Asian Crisis*, London: Routledge.

Lim, K.S., 2003, Speech, DAP forum 'Lowest Dividend in 40 Years: What is the Future of the EPF', 28 April 2003, bungaraya@listserv.net-gw.com, posted 30 April 2003.

MacIntyre, A., 2002, *The Power of Institutions: Political Architecture and Governance*, Ithaca: Cornell University Press.

Malaysiakini, 2004, 28 March, available at: http://www.malaysiakini.com/.

Malaysian Accounting Standards Board, 2003, 'PricewaterhouseCoopers Dato' Johan Raslan Appointed Chairman of the Financial Reporting Foundation', Headline, 7 July, available at: http://www.masb.org.my/masbhl_detail.asp?hlid=03012004-1.

New Straits Times, 2002a, 2 December, Kuala Lumpur.

New Straits Times, 2002b, 26 November.

New York Times, 2004a, 19 March, available at: http://www.nytimes.com/.

New York Times, 2004b, 27 March, available at: http://www.nytimes.com/.

Pereira, B., 2002, 'Reinventing Malaysia', *Sunday Review*, (Singapore), alternatives2004@yahoogroups.com, posted 29 Sept. 2002.

Puthucheary, M. and N. Othman, 2003, 'The Electoral System of Malaysia: A Report', Bangi: Institute of Malaysian and International Studies.

Searle, P., 1999, *The Riddle of Malaysian Capitalism: Rent-seekers or Real Capitalists?* St Leonards: Allen and Unwin.

Shamsul, A.B., 1997, 'The Economic Dimension of Malay Nationalism', *The Developing Economies*, Vol.35, No.3.

The Star, 2001a, 23 April, Kuala Lumpur.

The Star, 2001b, 12 May.

The Star, 2002a, 7 October.

The Star, 2002b, 16 October.

The Star, 2002c, 24 October.

The Star Bizweek, 2002, 10 August, Kuala Lumpur.

The Star-Business, 2002, 29 October, Kuala Lumpur.

Sunday Star, 2002, 11 August, Kuala Lumpur.

Transparency International (2002), Corruption Perceptions Index 2002, http://www.transparency.org/cpi/2002/cpi2002.en.html.

Von Vorys, K., 1975, *Democracy Without Consensus: Communal and Political Stability in Malaysia*, Princeton: Princeton University Press.

Wall Street Journal, 2004a, 21 January.

Wall Street Journal, 2004b, 18 February.

Wall Street Journal, 2004c, 24 February.
Weiss, M.L., 2000, The 1999 Malaysian General Elections', *Asian Survey*, Vol.40, No.3.
Weiss, M.L., 2001, *The Politics of Protest: Civil Society, Coalition-Building, and Political Change in Malaysia*, Ph.D thesis, Yale University.
Weiss, M.L., 2003, 'Civil Society and Political Reform in Malaysia', in D. Schak and W. Hudson (eds.), *Civil Society in Asia*, Aldershot: Ashgate.

Neo-liberalism and Domestic Capital: The Political Outcomes of the Economic Crisis in Thailand

KEVIN HEWISON

Kevin Hewison, Director, Carolina Asia Center, CB#7582, West House, The University of North Carolina at Chapel Hill, Chapel Hill, NC 27599-7582, USA. E-mail: khewison@unreach.com.
Funding that supported some of the research reported here came from a University Grants Commission fund administered by the City University of Hong Kong as a Direct Allocation Grant (7100258) and was also supported by a 2002–04 Australian Research Council Discovery Grant, 'Changing East Asia's Economic and Political Regimes: What Kind of Markets? What Kind of Politics?' For research assistance, the author thanks Jill Chung of the Southeast Asia Research Centre, and for comments and advice, the author also thanks Chris Baker, Andrew Brown, Michael Connors, Rick Doner, Paul Handley, Ji Ungpakorn and Garry Rodan.

I. INTRODUCTION

From being one of the world's most successful economies and hailed as a 'model' for other developing countries, the 1997 Asian Economic Crisis saw Thailand's economic reputation tarnished. It was chastised by international financial institutions and investors as being amongst a coterie of economies that had succumbed to 'crony capitalism'. This term encompassed a range of meanings – weak corporate and state governance, inadequate institutions, moral hazard, corruption/rent-seeking/patronage and resource misallocation. These 'market distorting' factors were seen to have generated the crisis, and to have been the result of misguided state interventions. There was a conspicuous collective sigh of relief from many of these analysts who considered, at last, that 'Asian Capitalism' had failed.[1] As the then US Treasury Secretary Robert Rubin [*1998: 1*] explained,

> weak financial sectors, noncommercial relationships amongst banks, governments, and industrial companies, and a lack of transparency in financial transactions and government decision-making, to name a few – and all of this eventually led to severe financial instability. These problems are not ... self-correcting; they require the help of the international community and a reorientation of the role of government and the political will to implement that reorientation.

The solution to the crisis, and to the problems alleged to derive from 'Asian Capitalism' was a rules-based market system. This was to be accompanied by further liberalisation, market enhancing reform, and attention to the institutions that supported the market. 'Good' public policy was seen to be that developed by technocrats and institutions insulated from political and particularistic influences. The bottom-line was that Thailand's crisis-damaged capitalism was to be made more like Western capitalism. This amounted to a call for a neo-liberal economic and institutional revolution. As this article will indicate, while the tenure of this neo-liberal approach was relatively brief, its impact was significant, although not in the ways its proponents had hoped and expected.

In addressing the political impacts of the neo-liberal policy offensive in Thailand, I will argue that an understanding of the political outcomes of the economic crisis and subsequent recovery requires attention to the conflicts that accompanied the implementation of neo-liberal policies. It is suggested that the responses of *domestic* economic and political forces were critical in opposing and rolling back a range of these policies. This

approach offers support to the observations of Higgott and Nesadurai [*2002: 29*] who assert that markets are 'politically constructed by governments through a set of rules that enable rights and obligations to be allocated to different actors via markets'. Governments, they argue, are critical in shaping markets and institutions. While this may seem obvious, it has often been neglected in discussions about globalisation and the power of international capital. As others have observed, globalisation has not rendered the national state obsolete [for example *Weiss, 1998*]. More than this, however, this study indicates that politics matters, for far from neutering the economic and political capacity of domestic capital, in Thailand the economic crisis and strident opposition to neo-liberal policies resulted in processes of reorganisation that galvanised and eventually enhanced its power. Thailand's domestic capitalists had long recognised the importance of the state. In the post-crisis setting, domestic capital's economic survival and growth required a political vehicle that allowed it to seize the state. In Thailand's political environment, with a new and reformist constitution, this could only be achieved through the electoral process.[2] This article will detail the processes and conflicts involved in this process of contesting neo-liberal reform.

Before turning to an account of the course of the neo-liberal policy offensive that followed the flotation of the Thai baht on 2 July 1997, a short discussion of neo-liberalism is necessary.

II. NEO-LIBERALISM

While the parameters of neo-liberalism have been outlined by Beeson and Islam [*2004, this volume*], the use of this term in this essay can be explained briefly. As Campbell and Pedersen [*2001: 3–5*] note, at the empirical level, neo-liberalism is a less coherent concept than some analysts assume. Even so, the core of the neo-liberal project has been identified in a range of economic, social and related political policies that emphasise the market, liberalisation, deregulation, decentralisation, privatisation and a reduced role for the state. As neo-liberalism has evolved, these core elements have remained constant, and can be seen as policy guides and its ideological core. In practice, a range of policies have been added, emphasised or modified in particular circumstances. These have included: a minimalist welfare state, decentralised labour relations and a weakening of unions, fiscal discipline taking precedence over social policies, and a reduction of barriers to trade, especially tariff protection, and investment [see *Portes, 1997: 238*]. As Sandbrook [*2000: 1071, 1073*] observes, neo-liberal variation in practice has seen the emergence of a 'pragmatic neo-liberalism'. The World Bank was a leading practitioner of this pragmatic approach, emphasising the significance

of appropriate regulatory institutions for economic growth. Even so, 'pragmatic neo-liberalism' continued to be challenged by hard-line neo-liberal ideologues who extend their economic doctrine to social and political analysis.[3]

As will be indicated, the post-crisis neo-liberal approach promoted in Thailand by the IMF, World Bank, Asian Development Bank and a range of bilateral partners placed considerable emphasis on liberalisation, privatisation, fiscal austerity, deregulation and decentralisation. Implicit was a view that the economic role for the state needed to be reduced. It is this approach that is identified as 'neo-liberal' in this essay.

It was somewhat odd that the IMF and its allies diagnosed Thailand's problems as deriving from too much government intervention, as if it was an exemplar of 'Asian Capitalism'. This is surprising because Thailand, as a star pupil of the international financial and development agencies for many years, was *not* a model of *dirigiste* developmentalism.[4] Many analysts understood this. Orthodox analysts described a state that lacked effective policymaking rather than an interventionist state [*see, for example, Christensen et al., 1993: 1–8*]. From a different perspective, Doner and Hawes [*1995: 168–9*] explained that Thailand's success was not driven by powerful technocrats and developmentalist elites, but by a dynamic private sector; the state was relatively weak.

While not fitting the 'Asian Capitalism' model, following the crisis, some neo-liberal economists and commentators saw an opportunity to roll back 'pragmatic neo-liberalism' and push Thailand further down the free market path. As the then IMF managing director Michel Camdessus [*1998*] explained, the 'centerpiece' of IMF programmes addressing the crisis was:

> a set of forceful, far-reaching structural reforms to strengthen financial systems, increase transparency, open markets and ... restore market confidence. ... [N]on-viable financial institutions are being closed down, and other institutions are being required to come up with restructuring plans and to comply ... with internationally accepted best practices.... Other ... changes [will] strengthen financial sector regulation and supervision, increase transparency in the corporate and government sectors, create a more level playing field for private sector activity, and increase competition. Taken together, these reforms will require a vast change in domestic business practices, corporate culture, and government behavior.

In other words, a fundamental transformation of the ways of doing business and politics was proposed, driven by a neo-liberal agenda.

III. THE NEO-LIBERAL OFFENSIVE IN THAILAND

Following the floating of the baht, its rapid devaluation and the flight of capital, the IMF brokered a 'rescue package' with the short-lived government led by Chavalit Yongchaiyudh. The devaluation followed concerted speculative attacks that saw the Bank of Thailand defending its US dollar peg and, in the process, depleting official reserves. The devaluation saw many companies, already suffering considerable over-capacity, pushed into insolvency. Those that weren't insolvent, together with many small businesses, suddenly found that they were unable to access a banking system that all but collapsed [*see Hewison, 2000a; Regnier, 2001*]. Thailand had little choice but to accept the IMF's US$17 billion stand-by facility and the Fund's demands for austerity and market-enhancing reform [*see IMF, 1st Letter of Intent* [*LoI*], *14 August 1997*].

The first LoI demonstrated the concerns international institutions had for financial restructuring and 'stabilisation'. In addition, the IMF required a severe tightening of monetary and fiscal policy and proposed a massive reform programme that demanded: keeping wages low; privatisation of state enterprises (especially targeting communications, transport and energy); civil service reform; improvements to corporate governance, regulatory reform; eased restrictions on foreign investment; and increased private sector participation in infrastructure projects. All of this was to be supervised by the IMF [*1st LoI, 14 August 1997*]. When the Chuan Leekpai-led coalition government came to power in late 1997, the second LoI was issued and reaffirmed the thrust of the recovery strategy. In addition, measures were announced for the *accelerated* privatisation of major state enterprises. This LoI also noted progress in 'bringing the legal and regulatory framework in line with international standards...', with revised laws and regulations to facilitate financial restructuring being promised [*IMF, 2nd LoI, 25 November 1997*]. Being careful to keep the IMF and international investors on side, the Chuan Government implemented what it called a 'bold' reform programme. The problem was that this reform strategy, and the resulting recession, had negative political consequences.

Initially there had been some political successes for the neo-liberal reformers. Following the inept Chavalit coalition, the incoming government had the support of both international and domestic business [see *Nation, 22 July 1998*]. Locally, this included the powerful commercial banks and other significant elements of big business. For example, both telecommunications tycoon and former government minister Thaksin Shinawatra and former prime minister and business leader Anand Punyarachun supported the Chuan government and the IMF economic medicine [*Bangkok Post, 26 and 27 July 1998*]. Indeed, the Chuan government made a point of seeking the advice of

the largest businesses [*see reports in Bangkok Post, April–July 1998*]. The government gave its initial attention to the collapsed finance and banking sector [*Endo et al., 2000*]. In addition, the government attempted to consult broadly with business, especially in manufacturing, to seek ways to promote restructuring [*Doner and Ritchie, 2003: 222–4*]. The crisis-induced shock suffered by business and the public delivered a short political honeymoon period for the Chuan government.

The honeymoon ended as the economy continued to decline, and a widespread and popular opposition to the IMF's strictures developed [see *Hewison, 2000b*]. More significant for this article, however, was the way that powerful interests were able to overcome historical and personal animosities, political rivalries and business competition to organise a political revival that aimed to save *domestic* capital. As the reaction to the neo-liberal offensive developed, some international observers began to worry. In hindsight, however, the US Embassy's [*1998: 1*] assessment that 'resistance from indigenous business and political interests' would be overcome, was well wide of the mark.

As indicated above, by mid-1998, local business was deeply distressed. In struggling to survive, domestic business complained about high interest rates, a lack of liquidity and about the 'fire sale' of local assets to foreign interests. More broadly, business groups and some economists argued for more domestic initiatives to save an economy that was spiralling into negative territory. The government began to take notice, and the third and fourth LoIs set out to strengthen banks, increase liquidity, loosen fiscal and monetary policy, and address the social impacts of the crisis [*IMF, 3rd LoI, 24 February 1998; 4th LoI, 26 May 1998*]. Despite these measures, the real economy remained distressed. Amid growing agitation and opposition, the government maintained its strategy and continued to emphasise privatisation, liberalisation and increased foreign investment.

While domestic business might have been pleased that the government had begun to respond to its immediate concerns, it was apparent that Chuan's government remained committed to neo-liberal reform. This steadfastness increased concerns over crisis impacts as expressed by a range of economic and political actors including academics, public intellectuals, the monarch, non-governmental organisations and domestic business. Importantly, the local business class concluded that the IMF-sponsored reforms would so weaken their control and reduce their wealth that they threatened the demise of the class.

An example of this perceived threat was evident amongst the once dominant group of Sino-Thai banking capitalists. Their largely family-controlled financial and industrial conglomerates had been especially

powerful in the protected environment of the 1960s and 1970s. When export-oriented strategies were adopted, and the 1987–96 economic boom began, the capitalist class became larger and more diverse, but the banking families remained significant. Before the 1997 crisis, these banking families controlled the partially liberalised finance sector, including 13 of the 16 commercial banks,[5] and ranked amongst the wealthiest groups in the country. By the end of 1998, with foreign ownership laws having been changed, only five commercial banks remained in majority Thai ownership, with just three of these controlled by the previously dominant families. Each of these had had to accept increased foreign shareholdings of 40–49 per cent [*see Hewison, 2001a*]. This pattern of foreign penetration was seen in other sectors, from manufacturing to retailing.[6] While some saw this process as the end of dynastic control over Thai business [*Straits Times, 16 March 2002*], as will be indicated, domestic capital fought back.

What was it about the Chuan Government's neo-liberal reform agenda that motivated such intense opposition from local business? Various elements of the reform package were potentially attractive for some businesses. For example, the new bankruptcy law was meant to assist creditors, and local banks stood to benefit. But the problems with the thrust of the total package outweighed such potential gains. Privatisation is a useful guide. The IMF had insisted that the government bring state enterprises into fiscal balance and that it prepare and implement a rapid privatisation plan. The government repeatedly stated its intention to privatise. Its consultant, Anderson Consulting, drafted a master plan that proposed 'mass privatisation' for the bulk of these enterprises, with significant foreign participation [*Dempsey, 2000: 382–88*]. Selling state enterprises did not threaten domestic business. Indeed, some had long argued that the state should divest itself of some of its enterprises.[7] However, doing this in the depths of a crisis was a cause for deep concern. Local business considered itself at a significant disadvantage as it was cash strapped and banks were not lending. This led business to join the opposition to privatisation, led by state enterprise employees and management, senators, and non-governmental organisations (NGOs). A number of highly respected political leaders also joined the protests, and there was a wave of public opposition to a process seen as selling national assets to foreigners on the cheap.

Complicating the politics of privatisation was the continued liberalisation of foreign investment. The Chuan government was doing little to indicate to Thais that it had not become a lackey of foreign interests. In these circumstances, domestic business came to feel that the government had deserted them in favour of foreign interests. Business leaders pleaded with the government not to ignore their plight, but to no avail [*Bangkok Post, 10 April 1998*]. It seems that the Chuan government and the IMF, through their

neo-liberal agenda, was seeking to buttress capitalism. However, this was a support for a generalised capital rather than for domestic capital in particular. This contrasted with previous economic crises. In these downturns foreign capital had usually retreated and domestic business had been able to expand. This time, the reverse was true, and liberalisation was seen to be making matters worse. Capitalist crises rearrange the architecture of capital, but in the Thai case, domestic capital was being out-competed by foreign businesses, seemingly with the connivance of the government.

The Democrats repeatedly conveyed their neo-liberal reform message in a manner that suggested they were 'forgetting' domestic business. Seeming to accept notions of 'crony capitalism', the government appeared determined to restructure Thailand's capitalism in a manner that appeared to give foreign investors an enhanced position. In its LoIs, the government expressed its commitment to market reform, and especially in those sectors previously protected from foreign competition [*IMF, LoI, 25 August 1998*]. It argued that further liberalisation was essential for recovery, and moved to increase foreign investment in real estate, a protected sector for decades [*IMF, LoI, 23 March 1999*]. The bills required for these reforms were opposed, amended and held up in parliament, and especially by the Senate, but many were eventually passed into law. Further emphasising the apparent disdain for domestic business interests, the government cut a range of tariffs at the first sign of a weak economic recovery [*IMF, LoI, 21 September 1999*].

Portes [*1997: 244*], writing of Mexico in the 1980s, notes that neo-liberal reform policies established a contradiction between the 'prior social pacts on which the legitimacy of the regime rested'. The Chuan government, supported by international organisations and investors, attributed the blame for the economic crisis to domestic business. Here was a major contradiction. Over more than three decades international agencies and various Thai governments had consistently supported the development of local business; now they seemed to be supporting its destruction. The protected development of local business had been based on a social contract that allowed a trickle down of benefits to the population. Domestic capital perceived that the Chuan Government was implementing a neo-liberal agenda that was, by late 1999, of little benefit to them and promised long-term negative impacts, while foreign capital benefited. These threats to the interests of local business forced the domestic capitalist class to take direct control of parliament, ministries and the state. They were supported by a broader population that had seen the 'developmental social contract' – to be discussed further below – shattered by the increases in poverty, employment and incomes that resulted from the economic crisis and neo-liberal reform.

IV. THAKSIN, DOMESTIC CAPITAL, AND CONTROL OF THE LOCAL STATE

In 1997, Chuan and the Democrats had seemed the only viable alternative to Chavalit's failed government. They were perceived as being less obligated to the needs of provincial-based politicians who scrambled to recoup election expenses once elected. In other words, the Democrats offered a 'least corrupt' alternative to other parties. However, by 1998, businessman Thaksin Shinawatra had established a feasible choice for voters in his Thai Rak Thai Party (Thai love Thai Party or TRT). TRT promised to think and work in new ways for a new Thailand.

More than any previous Thai party, TRT was a party of the big domestic capital. As Baker [*2004*] points out, in the past, the biggest metropolitan business families had remained aloof from electoral politics; they had not needed to be directly involved, for government had long supported big domestic business. Potential extinction, blamed on neo-liberal policies, caused the remaining tycoons to conclude that *domestic* capital needed policies that better protected its interests. This could only be achieved by taking direct control of the state. Thaksin and TRT thus became the vehicles for domestic capital to oppose neo-liberalism, slow liberalisation, and give a competitive 'edge' back to local business. TRT's runaway election victory in January 2001 was a victory for domestic capital. We may now dissect the ways in which these interests were able to capture the state.

Thaksin is one of the most successful new magnates created by the economic boom. From a small computer company in the early 1980s, Thaksin's businesses had developed to the stage where he was, by 1996, listed as having wealth of $2.1 billion making him Thailand's fifth wealthiest person [*Forbes magazine reported in Bangkok Post, 22 June 1998*]. In terms of shareholdings, in 2000, Thaksin and his family held shares worth about 37 billion baht, mostly in the telecommunications sector [*Kan ngeon thanakhan* [Money and Banking], *December 2000: 148*]. A significant part of Thaksin's business success was his ability to gain state concessions in telecoms and related areas [*see Ukrist, 2002*]. As well as excellent links to government, Thaksin had close connections with the military and police [*Baker, 2004: 3–5*].

While he had dabbled in national politics from 1994 to 1997, Thaksin had been neither particularly popular nor successful as a minister. After 1997, while his businesses were not unscathed by the crisis, he was one of the first local capitalists to expand his interests after 1997. It was evident that Thaksin had cash.[8] This, and powerful alliances, was a distinct advantage when it came to inventing TRT and constructing its election victory. As Baker [*2004: 5*] shows, Thaksin was able to come to arrangements with former business

rivals and built powerful business and political alliances that allowed him to continue to prosper in business and to develop his political ambitions. TRT was also assisted by changes to the structures of power in the political system. Previously the business people who dominated parliamentary elections were provincial godfather-like figures. Many were badly affected by the crisis, and were unable to provide large funding to local candidates in the 2000 elections. This gave TRT an advantage. In addition, the 1997 constitution impacted on political practice. The constitution made it more palatable for the business elite to become politicians. This was due to the party list system that meant that candidates did not need to subject themselves to the grubby aspects of campaigning.[9]

The story of the TRT's 2001 election success has been reported elsewhere [*for example, Baker, 2004*], so there is no need for details here. It should be noted, however, that TRT, using techniques drawn from US campaign experience and marketing, built an electoral platform that addressed the aspirations of many voters. Its slogan emphasised inclusivity: 'new thinking, new ways, for all Thais'. When coupled with a party platform tinged with populist and nationalist rhetoric TRT was especially appealing to poor rural voters.[10] Thaksin promised help for the poor and those suffering from the Crisis, and appeared to address the political desires of the downtrodden. As an ex-policeman, he talked tough, warning, 'I can still carry a gun and pull the trigger. Before I die I want to kill our enemies first, and these are poverty, drugs and corruption' [*cited in Symonds, 2001*].

Thaksin was promoted and marketed as a 'new politician'. Decisive and a successful tycoon who 'had a heart', he was concerned about the aspirations of the poor. He would bring back good economic times and make all Thais better off. This was why he was seen as both a populist and nationalist. Behind this was a firm commitment to local business, both small businesses (promising to make credit available for them and to promote small- and medium-scale enterprise) and the big businesses of the remaining tycoons, like his own. This agenda was also appealing to a range of intellectuals and leaders of civil society groups who had abandoned Chuan and attacked his neo-liberal policies [*see Connors, 2001*]. Thaksin and TRT sent a clear message: we oppose neo-liberalism and the IMF, and will emphasise local benefits. The TRT thus created a political platform that did not distinguish between the suffering of the poor and the post-crisis trials of domestic capitalists.

TRT had caught the mood of an electorate that had seen significant welfare declines during the crisis [*see Hewison, 2002*]. More than political rhetoric, TRT developed a concrete platform based on specific commitments to policies. Most popular were proposals for a farmer debt moratorium, soft loans for every village, and a 30 baht universal health care programme. This

platform delivered TRT a handsome victory that marked a rejection of the IMF-brokered policies of the Democrat-led government. As Thaksin extolled the virtues of the Malaysian and Singaporean managed development, it seemed that Thailand, once the World Bank's model pupil, was looking elsewhere for its economic models, and perhaps for its political models as well [*Thaksin, 2001a*]. Not only did TRT make promises, but following the election, it moved to implement its commitments to the poor. This was essential to maintain political momentum.

Despite the commitment to the poor, the coalition that TRT dominated was a government by and for the rich. Thaksin's first cabinet included a range of big business leaders of the post-crisis era. These included Thaksin himself (Shin Corporation), the Bodharamik family of the Jasmine group, the Chearavanont family (Charoen Phokphand group), the Maleenont family of the Bangkok Entertainment group, the Jungrungreangkit family with extensive auto industry investments, and a range of others [*see Baker, 2004: 5*]. His second cabinet further entrenched this pattern [*Nation, 25 August 2002*]. The TRT government soon set about helping domestic businesses, including those of its leaders. It did this in two ways. First, by strengthening the government itself, and second, by measures to protect and restructure domestic business.

The strengthening of the government became an important task. Even before the election, the National Counter Corruption Commission had threatened to scupper Thaksin's political ambitions. He was alleged to have concealed assets of more than 2.3 billion baht by transferring these to maids, gardeners and other staff in 1997 [*Bangkok Post, 9 April 2001*]. In controversial circumstances Thaksin won his case. Immediately after this, he threatened the independent agencies that had been created under the 1997 constitution. His party also moved to establish control over the media that was outside the state's already strong control, and to manage its coverage, both domestic and international. Thaksin, in fact, had purchased the only independent television broadcaster prior to the election, and the government used its advertising budget in ways that limited criticism of the government.

Within parliament, Thaksin moved to make TRT a larger party, arranging mergers with smaller parties so that TRT eventually controlled about two-thirds of Lower House seats. This limited scrutiny of the government and meant that there was little to worry about in managing parliament and the passage of the government's bills. Thaksin also revealed an authoritarian streak when he argued that the parliamentary opposition and government should be united in working for the 'best interests of the people'. Indeed, he considered that adversarial politics was a betrayal of the people [*Thaksin, 2002: 4*]. This was one-sided, however, for whenever Thaksin was

criticised, the government vigorously attacked the critics, their ideas and organisations. The targets have included, amongst others, the foreign press, the United Nations, independent local media, NGOs, organisations conducting opinion surveys, academics, and independent agencies created by the constitution. The government has attempted to limit the funding to organisations that dare to criticise it. In 2003 it was revealed that the government had attempted to force the Ministry of Foreign Affairs to pressure foreign donors to cease funding Thai NGOs [*Bangkok Post, 10 May 2003*]. The government also moved to limit demonstrations [*Nation, 23 April 2002*]. Related, the government's bloody campaign against drugs that saw thousands of people killed advertised that the days of the excessive use of state violence had not passed [*Pasuk and Baker, 2004*]. In expanding this campaign to include 'dark influences', political activists were among those targeted and the military reinstituted its surveillance of political movements [*Bangkok Post, 20 and 21 May 2003*].[11] Of course, such authoritarian policies, while opposed by many civil society groups, are attractive to those Regnier [*2001: 22*] identifies as a petty bourgeoisie that emerges in SMEs and services, who are politically right-wing and attracted by populist and nationalist shibboleths.

By minimising and managing opposition, TRT has been making the government of business 'safe'. For Thaksin, the hope was that his tycoon's government would stay in power for two or more four-year terms [*Nation, 29 April 2003*]. Further, Thaksin has also been able to consolidate his control of the military and police by promoting relatives and close associates to positions where they will be at the top of these organisations for some time [*Bangkok Post, 20 March 2003*]. Staying in power and continuing to control the state is considered critical to the recovery and development of domestic capital.

On coming to power, the TRT government moved quickly to protect local business by rolling back its predecessor's neo-liberal agenda. Privatisation and liberalisation were slowed, and some aspects of liberal reform were reversed. Slowing the pace of privatisation was meant to allow time for domestic investors to ready themselves for involvement. However, it was clear that privatisation had been politically complicated by anti-IMF agitation. Indeed, in Thaksin's first policy speech to the National Assembly, he indicated that state enterprise privatisation would be a 'vehicle to mobilise domestic resources', and added that stock market listing was not the preferred model [*Thaksin, 2001b: 1*]. It was not until 2003 that Thaksin's government began to move ahead on privatisation. Even then Thaksin declared that foreigners would not be permitted to gain control of state enterprises. Rather, it was proposed that shares would be offered to state enterprise employees and local shareholders, and where foreign

investors participated, their shares would not carry voting rights [*Bangkok Post, 12 May 2003*].[12] In both the telecoms and media sectors, the government moved glacially on the establishment of independent regulatory agencies, which prevented the stock exchange listing of enterprises like the Telephone Organisation of Thailand [*AustCham, 2003: 1, 3*]. In telecoms, the government sought to maintain domestic control by proposing limits on foreign ownership, potentially benefiting the Prime Minister's own companies. While this proposal was later modified, the message to foreign investors was clear. In other ways, the government reduced the pace of reform or did little. The timetables set in the LoIs were forgotten and, by 2003, no longer mattered.

Further underlining the support for local business, some investigations into the financial shenanigans that led to the 1997 crash were put on the back-burner [*Baker, 2004: 18–19*]. Also, state banks managed to come to quick deals with Thaksin supporters and advisers who had been bankrupted by the crisis [*Nation, 9–11 April 2002*]. The Thai Asset Management Corporation, established in 2001, began to handle some of the bad loans of nationalised and state banks, but was seen by some observers as simply a vehicle for 'helping debtors stay in the game' [*cited in Ziegler, 2003: 7*].

It is important to emphasise that the TRT approach is not that of simplistic 'anti-globalists' who promote protection and nationalism. Thaksin is not a populist vehemently opposed to all aspects of liberalisation. On the contrary, some of his government's policies coincide with strategies supported by international institutions and international capital. For example, both the World Bank and the TRT government favoured decentralisation, enhancing civil society participation in governance, bureaucratic reform and support for small- and medium-scale enterprises. In addition, there were micro-reforms in corporate governance and bureaucratic operations that were generally supported by business.

Thaksin made it clear that, in principle, the government's economic role should be reduced, in favour of the private sector [*Asia Inc, June 2002: 18*]. He has also emphasised that he is committed to free trade [*Thaksin, 2003: 4*]. But these perspectives are substantially modified by the concern for the survival and revitalisation of local capital. The central element of TRT policies was the need for domestic capital to be rescued. As noted above, crises rearrange the architecture of capital, and the TRT represents one outcome of this process. The remaining tycoons recognised that if they were to compete, then considerable restructuring was unavoidable.[13] The challenge was to manage this in a way where the tycoons and other local businesses could restructure without being crushed by foreign investors. As Thaksin explained, his government will 'give them [domestic business] a chance' [*Asia Inc., June 2002: 17*].

V. ESTABLISHING A NEW SOCIAL CONTRACT

While the TRT-dominated government was Thailand's first government by tycoons, this was not a simple seizing of the state by domestic capital. Rather, Thaksin, TRT and domestic capital, operating within a representative parliamentary system, were engaged in a political process that attempted to establish a new social contract for Thai society.[14] Only a policy agenda that emphasised inclusivity would allow TRT to successfully protect and support domestic business. Much time was spent assuring the public that this was a government that cared for all Thais, as implied by the TRT name. This again marked TRT as different from the previous government.

Thaksin [*2002: 2*] himself has cited Rousseau on the social contract, when he argued that political parties

> are bound together by a Social Contract towards our peoples. This Social Contract confers upon us the duty to dedicate ourselves to solving the people's problems, improve their livelihood, and create greater opportunities for them to enrich their lives.

To understand this process, it is necessary to briefly outline the social contract that underpinned Thailand's development from the 1960s.

The Developmental Social Contract

In 1958, the military, led by General Sarit Thanarat, seized power. His regime's authoritarianism involved promises, later echoed by Thaksin, to advance the economy, improve administration, and deliver a higher standard of living [*Bangkok Post*, 22 October 1958; *Journal of the Thai Chamber of Commerce* [*nangsuphim ho kankha thai*], *Vol.13, No.3, 1959: 130*]. Sarit explained that authoritarianism was needed for the stability required to expand the middle class and make it strong. He saw his task as building a 'new society... a society that is happy' [*Journal of the Thai Chamber of Commerce, Vol.14, No.11, 1960: 99–100*]. In justifying military authoritarianism with a promise of prosperity, Sarit indicated that his regime's economic approach was significantly different from that of previous governments. Further, the government would promote private initiative and limit state investment to infrastructure development [*Abonyi and Bunyaraks, n.d.: 21–4*]. The government also provided incentives for foreign investors [*Hewison, 1985: 278–9*]. This approach heralded a period of growth that was to underpin Thailand's developmental 'social contract', albeit one that workers and peasants had no role in establishing. In short, the military was to establish political order, the government would support private capital, and

domestic capital would deliver the growth that would eventually trickle down to the working and peasant classes.

While the economic benefits of this implicit agreement can be debated, it was not until 1973 that this developmental social contract was challenged. That challenge was to the authoritarian political element of the contract. However, the military generally managed to retain control of the political process until the late 1980s. Thus the developmental social contract was maintained, albeit shakily, throughout the period until 1992 by, first, military domination of the political process, and then through the economic boom, which delivered significant, if unequal, benefits to all social sectors [*see Hewison, 1996: 2001b: 89–91*]. The generally rising living standards maintained until 1997 meant that the contract was essentially fulfilled. It was the economic crisis that shattered the developmental social contract.

Thaksin's New Social Contract

All elements of the developmental social contract disintegrated: workers were unemployed, the rural poor were deeply distressed by the crisis, local business was being crushed, and widespread, Indonesian-like social conflict was feared [*see Hewison, 2002*]. In abandoning support for domestic capital in favour of a more generalised support for business that advantaged foreign investors, the IMF, World Bank and Chuan government announced that the old consensus could not be re-established. Thaksin and TRT had to craft a new, more inclusive social contract that could ensure social and political stability while salvaging domestic capitalism. Like the developmental social pact, the new arrangement needed to deliver benefits beyond the domestic capitalist class in order to deliver legitimacy for the government of the rich while local business was restructured.

While the new social contract is yet to be fully embedded, its constituent elements may be identified in the electoral platform of TRT that has been implemented by the Thaksin government. The basic promise was to deliver a revitalised and sustainable economy. Local business would drive the economy, and in the process would 'prosper and earn their due rewards'. At the same time, what Thaksin called 'the grassroots', would also contribute through government-supported activities that provide opportunities for 'wealth to be created at the grassroots' [*Thaksin, 2003: 1–2*]. As part of the implicit bargain, the government would deliver increased social protection to the poor. The main inclusionary elements of this social contract were the million baht village fund and the 30 baht health scheme. Other elements included proposals for and extension of property rights [*Nation, 25 February 2003*], expanded housing schemes for the lower classes [*Bangkok Post, 7 January 2003*], support to village handicrafts production and unemployment insurance for workers [*Nation, 2 May 2003*]. The government

would deliver benefits directly to the popular classes, beyond neo-liberal trickle-down.

Of course, that the TRT's targeting of the poor brought considerable political support from all sectors of society is not coincidental. At the time TRT was created, the 1997 constitution was a part of a reform movement that was intended to liberalise the political system, expand participation and reduce the role of the military and other unelected powers [*see Connors, 2001; 2003*]. TRT, as the representative of the surviving tycoons needed to 'fit' this new approach to politics. By promising to deliver benefits to the poor and be inclusionary, TRT was also pledging to reduce the gap between the theory and practice of representative politics.[15] To be saved, domestic capital had to move in this direction.

Under the developmental contract, the position of rural areas and their populations changed over time. Initially, in the 1960s and 1970s, the rural peasantry was to be controlled to prevent communism while also being exploited to shift resources from agriculture to industry. As the communist insurgency declined, rural areas were seen as a source of workers for the expanding manufacturing sector. The 1997 crisis resulted in rural stagnation, inequality and poverty, suggesting the possibility of destabilisation and social unrest; TRT's policies were one reaction to this threat. The million baht village fund, for example, was symbolic of domestic capital's acknowledgement of these issues. In supplying a cheap loan for every village, TRT was demonstrating a level of concern for rural problems not evidenced by previous administrations. In contrast with previous governments, TRT's loans were not meant to simply support agriculture. Rather, the party's aim has been to develop the rural poor as entrepreneurs [*see Baker, 2004*]. This focus made welfare less controversial for domestic capital. Business was also keen to receive the consumption stimulus the scheme provided by injecting funds into the rural community [*Connors, 2001*].

The progress of the 30 baht health scheme has been more controversial. Even though Thailand's health system had been judged relatively successful in meeting the needs of the majority, health costs remained a significant expense for the poor.[16] Where there was prolonged or serious ill health, the result was usually a slide into deeper poverty. The private health sector was strong, and prior to the crisis was expanding [*Subbarao and Rudra, 1996*]. The crisis and its negative welfare impacts saw the poor having to invest more on their health. This made the TRT's election promise of a cheap and universal health scheme popular. It remained so even as a funding crisis emerged in 2002.

The TRT government realised that the 30 baht scheme and other welfare policies were significant elements of its popularity, and an essential component of the new social contract. TRT has generally been dismissive

of any private sector apprehensions regarding increased welfare provisions. The government is aware that, in order to maintain political support for the government of the rich, the majority of electors need to be convinced that its welfare is a central political concern for government.

VI. CONCLUSION

When the Asian economic crisis plunged a number of Asian economies into the deepest recession they had experienced for decades, it seemed that claims about the superiority of 'Asian Capitalism' had been negated. A range of neo-liberal economists and ideologues, many of them in the World Bank and the IMF, announced the death of 'Asian Capitalism', arguing it was dysfunctional in the age of globalisation. Even before the crisis, Sachs [*1997: 19*] had argued that in a globalised world, 'policies are likely to be more similar'. With the crisis, the argument for convergence became stronger. The crisis was, in the words of Krugman [*1998*], 'punishment for Asian sins' where 'Asian Capitalism' distorted markets. The solutions involved eliminating such distortions, and in making Asian economies look more like those of the West.

The crisis should have strengthened the political leverage of neo-liberal reformers. Indeed, for a time in Thailand this was the case. The political problem was that neo-liberal restructuring was not simply about clearing 'space' for the efficient operation of the market. Rather, it demanded a fundamental transformation of the operations of government and in the ways that business was organised and conducted. Neo-liberal reforms such as privatisation and deregulation aimed to neuter the state's ability for particularistic economic interventions, while political reforms were meant to establish 'good governance' and to insulate officials and technocrats from vested interests and cronyism.[17]

As Portes [*1997: 239*] notes, however, neo-liberal interventions often neglected the historical and political contexts and ignored the 'embeddedness of economic action in social structures...'. In Thailand this has also been the case. Neo-liberal reforms amounted to an agenda for the dominance of international capital. Domestic capital, deeply wounded by the economic crisis, was prescribed medicine that became poisonous. This led to a political backlash that saw a coalition of domestic capitalists seize state power through the electoral process. This outcome shows that the critical element in understanding the political outcomes of the economic crisis and recovery are not to be found in neo-liberal policies, but in the responses of domestic economic and political forces. Higgott and Nesadurai [*2002*] have observed that national governments are critical in shaping markets and institutions and their operations. It seems that a clear understanding of this fact has led

Thailand's domestic capitalist class to seize the state. The importance of shaping the way the 'market' will operate in Thailand has seen an attempt to reshape Thailand's social contract in a way that is quite different from what might have been expected when the economic crisis hit Thailand and a neo-liberal revolution seemed possible. That significant elements of social welfare have been a policy outcome of a tycoon's government indicates the significance of politics in the process of economic reform.

NOTES

1. There is no need to detail the presumed elements of 'Asian Capitalism', other than to note that there had emerged a view that the state had played a significant role for late industrialisers in Asia, and this suggested that neo-liberal market orthodoxy needed to be rethought. It was erroneously assumed that this development approach represented a generically Asian model.
2. In the past, the military would often mount a coup to achieve control of the state. Following democratic development from the late 1970s, and the mass opposition to the 1991 military coup, it was clear that such action would be highly divisive and was likely to be actively opposed.
3. Sandbrook [*2000*] makes his comments in the context of a critical review of the thoughtful liberalism of Amartya Sen [*1999*]. For the more ideologically narrow and politically naïve version of neo-liberalism applied to economic, social and political issues, see Barro [*2002*].
4. See the analysis of various approaches to the Thai state outlined by Lauridsen [*n.d.: 11–12*] who notes that few analysts saw the Thai state as interventionist. He does note a 'neo-statist' interpretation of industrial policy, associated with the work of Michael Rock. The addition of 'neo' is telling, for this position suggests little more than an 'enabling state'.
5. In domestic commercial banking, foreign shareholdings were then limited to 25 per cent.
6. The manufacturing sector saw a massive takeover by foreign interests after the crisis. The retail sector saw a huge expansion of foreign controlled hypermarkets throughout the country (including by the British-controlled Tesco Lotus and the French firm Carrefour). These developments in retailing became emblematic of the fight between struggling local business and cashed-up foreigners.
7. Over the past two decades, the number of state enterprises had in fact been reduced from 67 (with 266,000 employees in 1988 to 59 (with 314,000 employees) in 1998 [*Kraiyudht, 1993: 271, 277; Dempsey, 2000*].
8. There were allegations that when Deputy Prime Minister under Chavalit, he had benefited from inside advice on the coming devaluation, thus positioning his businesses to gain substantially. Such allegations were denied [*Thitinan, 2001: 327*].
9. 'Money politics' was not dead. There remained pockets where local godfathers were influential. At the same time, TRT's platform promised a flow of funds to rural areas, emphasising money politics of the pork barrel variety.
10. Thaksin's and TRT's populist response to the crisis and reform, and to the need to gain electoral support was also seen in Indonesia [*see Hadiz and Robison, this volume*].
11. 'Dark influences' is a term that has usually been considered to include gangsters and their cronies in the military, police and politics who have unusual wealth and who benefit in a variety of ways from these connections. An example is the gangster-cum-local politician Somchai Khunpleum (known as Kamnan Poh), a wealthy businessman whose son, Sontaya is Tourism and Sports Minister in Thaksin's cabinet. At the time of writing, Poh was being investigated for a range of alleged crimes, including a gangland-style murder [*Nation, 22 May 2003*]. The Thaksin government's widening of the term to include political activists a clear threat to political opposition.

12. For details on privatisation and the negative response of unions in 2003 and 2004, see Brown and Hewison [*2004*]. Contrary to the policy speech, shares were to be offered through the stock market.
13. For details regarding the kinds of business restructuring required, especially in industry, see Doner and Ritchie [*2003*] and Regnier [*2001*]. It is worth noting that TRT's support for domestic capital is biased towards the service sector, recognising that big manufacturing is now foreign-dominated [*Chris Baker, personal communication, June 2003*].
14. There are issues associated with using the term 'social contract'. Others prefer terms like 'social compact' or 'social pact'. The pedigree of 'social contract' is usually seen to reflect the work of Rousseau, Hobbes, Locke and, more recently, Rawls. It most usually denotes a belief that political structures and the legitimacy of the state derive from an explicit or implicit agreement by citizens to surrender some or all of their personal rights in order to secure stability and the protection of and organisation such as government [*see D'Agostino, 1998*]. In this essay, I am using the term to identify an arrangement where government or the state make an implicit or explicit promise to deliver benefits to citizens in exchange for political support. This does not imply any freedom to choose on the part of citizens. Michael Connors [*personal communication, April 2003*] suggests that 'the idea of a social contract was ... an initiative of the various NGO/democracy networks who from the mid-1990s had been calling for elections to be policy-based, and this was couched in terms of parties offering social contracts to the electorate'.
15. Andrew Brown makes this insight, based on his studies of the politics of the Thai working class [*personal communication*].
16. The World Bank has reported that up to 40 per cent of the population, mainly in rural areas, did not have access to adequate health care in the late 1990s, especially in rural areas [*World Bank, 1998: 15*], while other reports were of 26 per cent lacking adequate access [*World Bank, 2000: 12*].
17. It is often remarked that Thailand's reformist 1997 constitution was passed in the midst of the economic crisis, as if this was a major achievement in the face of considerable adversity. In fact, the constitution also included provisions in line with a neo-liberal economic agenda [*Connors, 2003: Ch. 7*].

REFERENCES

Abonyi, G., and Bunyaraks Ninsananda, n.d., *Thailand: Development Planning in Turbulent Times*, Toronto: University of Toronto–York University Joint Centre for Asia Pacific Studies.

AustCham, 2003, 'Thailand's Telecom Logjam', *AustCham* [newsletter of the Australian-Thai Chamber of Commerce], Jan.

Baker, C., forthcoming 2004, 'Pluto-Populism: Thaksin, Business and Popular Politics in Post-Crisis Thailand', unpublished paper for Peter Warr (ed.), *Thailand Beyond the Crisis*, London: Routledge.

Barro, R.J., 2002, *Nothing is Sacred. Economic Ideas for the New Millennium*, Cambridge: The MIT Press.

Brown, A. and K. Hewison, 2004, *Labour Politics in Thaksin's Thailand*, Hong Kong: City University of Hong Kong, Southeast Asia Research Centre Working Papers Series No.62, March.

Camdessus, M., 1998, 'The IMF and its Programs in Asia', Remarks by the Managing Director of the International Monetary Fund at the Council on Foreign Relations, New York, 6 Feb., downloaded from: http://www.imf.org/external/np/speeches/1998/020698.htm.

Campbell, J.L. and O.K. Pedersen, 2001, 'The Rise of Neoliberalism and Institutional Analysis', in J.L. Campbell and O.K. Pedersen (eds.), *The Rise of Neoliberalism and Institutional Analysis*, Princeton: Princeton University Press.

Christensen, S., Dollar, D., Ammar Siamwalla, and Pakorn Vichyanond, 1993, *The Lessons of East Asia. Thailand: The Institutional and Political Underpinnings of Growth*, Washington DC: The World Bank.

Connors, M.K., 2001, *Ideological Aspects of Democratisation in Thailand. Mainstreaming Localism*, Hong Kong: City University of Hong Kong, Southeast Asia Research Centre Working Papers Series No.12, Oct.

Connors, M.K., 2003, *Democracy and National Identity in Thailand*, London: RoutledgeCurzon.

D'Agostino, F., 1997, 'Contemporary Approaches to the Social Contract', Stanford Encyclopedia of Philosophy, downloaded from: http://plato.stanford.edu/entries/contractarianism-contemporary/

Dempsey, J.R., 2000, 'Thailand's Privatization of State Owned Enterprises During the Economic Downturn', *Law and Policy in International Business*, Vol.31, No.2.

Doner, R.F., and G. Hawes, 1995, 'The Political Economy of Growth in Southeast and Northeast Asia', in Manochehr Dorraj (ed.), *The Changing Political Economy of the Third World*, Boulder: Lynne Rienner Publishers.

Doner, R.F., and B. Ritchie, 2003, 'Economic Crisis and Technological Trajectories, Hard Disk Drive Production in Southeast Asia', in W.W. Keller and R.J. Samuels (eds.), *Crisis and Innovation in Asian Technology*, Cambridge: Cambridge University Press.

Endo, T. and team, 2000, 'Thailand: Selected Issues', IMF Staff Country Report No.00/21, Feb.

Hewison, K., 1985, 'The State and Capitalist Development in Thailand', in R. Higgott and R. Robison (eds.), *Southeast Asia: Essays in the Political Economy of Structural Change*, London: Routledge & Kegan Paul.

Hewison, K., 1996, 'Emerging Social Forces in Thailand: New Political and Economic Roles', in R. Robison and D. Goodman (eds.), *The New Rich in Asia. Mobile Phones, McDonalds and Middle-Class Revolution*, London: Routledge.

Hewison, K., 2000a, 'Thailand's Capitalism Before and After the Economic Crisis', in R. Robison, M. Beeson, K. Jayasuriya and Hyuk-Rae Kim (eds.), *Politics and Markets in the Wake of the Asian Crisis*, London: Routledge.

Hewison, K., 2000b, 'Resisting Globalization: A Study of Localism in Thailand', *The Pacific Review*, Vol.13, No.2.

Hewison, K., 2001a, *Pathways to Recovery: Bankers, Business and Nationalism in Thailand*, Hong Kong: City University of Hong Kong, Southeast Asia Research Centre Working Papers Series No.1, April.

Hewison, K., 2001b, 'Thailand's Capitalism: Development Through Boom and Bust', in G. Rodan, K. Hewison and R. Robison (eds.), *The Political Economy of South-East Asia. Conflicts, Crises, and Change*, Melbourne: Oxford University Press.

Hewison, K., 2002, 'The World Bank and Thailand: Crisis and Safety Nets', *Public Administration and Policy*, Vol.11, No.1.

Higgott, R.A., and H.E.S. Nesadurai, 2002, 'Rethinking the Southeast Asian Development Model. Bringing Ethical and Governance Questions In', *ASEAN Economic Bulletin*, Vol.19, No.1.

International Monetary Fund, Letters of Intent, Government of Thailand Letters of Intent with the IMF, dated 14 Aug. 1997, 25 Nov. 1997, 24 Feb. 1998, 26 May 1998, 25 Aug. 1998, 1 Dec. 1998, 23 March 1999, and 21 Sept. 1999, All are available from http://www.imf.org/external/country/THA/index.htm

Kraiyudht Dhiratayakinant, 1993, 'Public Enterprises', in P.G. Warr, (ed.), *The Thai Economy in Transition*, Cambridge: Cambridge University Press.

Krugman, P., 1998, 'Will Asia Bounce Back?', Speech to Credit Suisse First Boston, Hong Kong, March, downloaded from: http://web.mit.edu/krugman/www/suisse.html (1 Aug. 1998).

Lauridsen, L.S., n.d., 'Rival and Complementary Views on State and Industrial Policy in Thailand', unpublished paper (Vol.7) for GlobAsia's Project Globalisation, Regionalisation and Development Management in Weak States in Southeast Asia.

Pasuk Phongpaichit and C. Baker, 2004, 'Slaughter in the Name of a Drug War', *The New York Times*, 24 May, downloaded from: http://www.nytimes.com (24 May 2003).

Portes, A., 1997, 'Neoliberalism and the Sociology of Development: Emerging Trends and Unanticipated Facts', *Population and Development Review*, Vol.23, No.2.

Regnier, P., 2001, 'Reform in Post-Crisis Thailand (1997–2001): Exploring the Contribution of Small Entrepreneurs to Socio-Economic Change, Democratization and Emerging Populist Governance', Draft paper presented to the EUROSEAS Conference, London, School of Oriental and African Studies, 6–8 Sept.

Rubin, R.E., 1998, 'Remarks', Press Release 130/98, United States Information Service, Bangkok, downloaded from: http://usa.or.th/usis/press/nrot130.htm (30 Dec. 1998).

Sachs, J., 1997, 'The Limits of Convergence. Nature, Nurture and Growth', *The Economist*, 14 June.

Sandbrook, R., 2000, 'Globalization and the Limits of Neoliberal Development Doctrine', *Third World Quarterly*, Vol.21, No.6.

Sen, A., 1999, *Development as Freedom*, New York: Alfred Knopf.

Subbarao, K., and K. Rudra, 1996, *Protecting the Disadvantaged in a High Growth Economy: Safety Nets in Thailand*, Washington DC: World Bank Poverty and Social Policy Department Discussion Papers Series, July.

Symonds, P., 2001, 'Billionaire Tycoon the Likely Winner in Thailand's Election', World Socialist website, 6 Jan., downloaded from: http://www.wsws.org/articles/2001/jan2001/thai-j06_prn.shtml (downloaded 24 April 2003).

Thaksin Shinawatra, 2001a, 'Speech by His Excellency Pol. Lt. Co. Thaksin Shinawatra, Prime Minister of Thailand', Putrajaya, Malaysia, 24 April, downloaded from: http://www.thai-gov.go.th/news/speech/thaksin/sp25apr01.htm (12 Nov. 2001).

Thaksin Shinawatra, 2001b, 'Policy of the Government of HE Prime Minister Thaksin Shinawatra' (Unofficial translation). Delivered to the National Assembly, 26 Feb. downloaded from: http://www.thaigov.go.th/general/policy/policy.htm (27 April 2004).

Thaksin Shinawatra, 2002, 'Keynote Speech' to the 2nd International Conference of Asian Political Parties, Bangkok, 23 Nov., downloaded from: http://www.thaigov.go.th/news/speech/thaksin/sp23nov02-2.htm (26 Nov. 2002).

Thaksin Shinawatra, 2003, 'Forward Engagement: The New Era of Thailand's Foreign Policy', Inaugural Lecture to the Saranrom Institute of Foreign Affairs, Bangkok, 12 March, downloaded from: http://www.thaigov.go.th/news/speech/thaksin/sp12mar03.htm (19 March 2003).

Thitinan Phongsudhirak, 2001, 'Crisis From Within: The Politics of Macroeconomic Management in Thailand, 1947–97', PhD thesis, Department of International Relations, London School of Economics.

Ukrist Pathmanand, 2002, 'From Shinawatra Group of Companies to the Thaksin Shinawatra Government: The Politics of Money and Power Merge', Paper presented to the International Conference on 'Crony Capitalism', Quezon City, University of the Philippines, 17–18 Jan.

US Embassy, 1998, 'Thailand – Economic Trends and Forecast for 1998', Bangkok, downloaded from http://usa.or.th/embassy/eco.htm (11 Dec. 1998).

Weiss, L., 1998, *The Myth of the Powerless State. Governing the Economy in a Global Era*, Cambridge: Polity Press.

World Bank, 1998, 'Thailand's Development. The Role of the World Bank', http://www.worldbank.or.th/html/pdf/eas/easpub.pdf (downloaded 25 Sept. 2002).

World Bank, 2000, *Thailand Country Dialogue Monitor. Strengthening Social Policy*, Bangkok: World Bank, http://www.worldbank.or.th/dialogue/pdf/CDM092k.pdf

Ziegler, D., 2003, 'The Weakest Link. A Survey of Asian Finance', Supplement to *The Economist*, 8 Feb.

China's Engagement with Neo-liberalism: Path Dependency, Geography and Party Self-Reinvention

LEONG H. LIEW

I. INTRODUCTION

China's economic reform has been a resounding success. It has produced stellar economic growth that has made a huge dent in the numbers of Chinese people living in poverty. China's official estimates show that its economy grew at an annual rate of 9.7 per cent between 1978 and 1998 [*Lardy, 2002: 12*] and at an annual rate of 7.7 per cent between 1998 and 2002 [*NBSC, 2003: 27*].[1] In 1978, 60 per cent of China's population were below the international poverty standard [*World Bank, 1997a: 3*], but by 1996, the number of people living below the absolute poverty line had fallen to less than 6 per cent of the population [*World Bank, 1997b: 2*]. Some scholars like Stiglitz [*2002: 180–94*] saw China's economic reform as a policy challenge to the IMF/World Bank. China's approach to economic reform differs from

Leong H. Liew, Department of International Business & Asian Studies, Griffith University, Nathan Queensland 4111, Australia. E-mail: L.Liew@griffith.edu.au

The author wishes to acknowledge the comments of Kevin Hewison and anonymous referees for the Journal, and the financial support from the Australian Research Council for a 2002–04 Discovery Grant, 'Changing East Asia's Economic and Political Regimes: What Kind of Markets? What Kind of Politics?'.

the approach prescribed by the IMF/World Bank, but China's reform has produced outcomes better than outcomes of reform in countries in the Commonwealth of Independent States, which have followed more closely the IMF/World Bank prescription.[2]

The Asian financial crisis had a weaker impact on China than on many other countries in East Asia. The crisis initially appeared to increase the urgency among China's leaders to speed up liberal market reforms. But with China escaping relatively unscathed from the crisis, ironically due to its resistance to IMF pressure to open its capital account and allow free convertibility of the *yuan*, the earlier imperative has disappeared. Today it is 'business as usual'. In China 'business as usual' does not mean the status quo. Since the Chinese Communist Party (CCP) commenced market reform in 1978, China's economy has been transformed gradually from a centrally planned to a market economy. 'Business as usual' means that China's progression to a market economy has multiple contestable pathways and the form of market liberalism that is pursued continues to develop in ways that are contingent on China's history, geography and politics.

China's market reform programme contains elements of the two key pillars of the IMF/World Bank neo-liberal model – market liberalisation and privatisation.[3] However, I argue in this article that China's market reform, while it contains these elements of the IMF/World Bank's market model, is mediated distinctly by the Party/State and modifies this model. The standard IMF/World Bank approach favours the free mobility of resources and use of 'undistorted' market prices, including wages, to allocate resources. According to this approach, a country's output is maximised when ownership of its resources is largely in private hands and the country allocates its resources according to its predetermined comparative advantage; public policy cannot alter a country's comparative advantage.[4] Political interference with the market, state ownership and management of sectors of the economy and any form of strategic industry policy are incompatible with the model. Economic reform in China has created a market economy that departs sharply from this model.

One obvious departure is seen in the fact that state ownership remains significant in post-reform China. In 2001 state-owned and state-holding enterprises comprised 27.3 per cent of the total of industrial enterprises and produced 44.4 per cent of industrial output [*NBSC, 2002: 423*]. It is a market economy where the state continues to intervene actively to promote its political goals and where the state remains a strategist in industry policy. The state also remains tied to the CCP, limiting the scope of market reform to what is possible under prevailing Party ideology and requiring the state to protect the CCP's privileged market position so that the CCP can preserve its monopoly on political power.

I argue that three principal factors – China's history, China's geography and CCP self-reinvention – influence how the state mediates China's market reform. These factors are briefly outlined here, prior to a more detailed discussion of each. First, the CCP came to power through a communist and nationalist revolution. Although difficult, it is possible for a post-communist government to erase the legacy of communism. But it is impossible for any Chinese government, not least a CCP government, not to pay heed to Chinese nationalism and do whatever is necessary to preserve national unity – Xinjiang and Tibet are yet to be securely integrated within the PRC – and to prevent *de jure* independence for Taiwan. China's government also has to intervene heavily in the market because poor factor endowments – in Xinjiang and Tibet for example – that do not allow them to develop economically without state intervention and unequal economic development are considered likely to exacerbate ethnic tensions and are thus viewed as a serious threat to national unity.

The CCP, unlike the communist parties of Central and Eastern Europe (CEE), remains in power and therefore controls the process of transforming China from a centrally planned to a market economy. The path of liberal market reform in China is therefore very much restricted to what is possible given Party norms and beliefs. The CCP could never have contemplated the 'shock therapy' approach to marketisation adopted by the post-communist governments of CEE when it made the decision to reform China's economy in 1978. The post-communist governments of CEE knew their ultimate aim was to transform their planned economies to liberal market economies. This was not the case with the CCP in 1978; it never aimed to transform China's planned economy completely to a market economy. The market was to complement the plan, not to replace it (*jihua wei zhu, shichang wei bu*). It is the contradictions inherent in a plan–market system and the momentum of pent-up liberal forces when unleashed by reform that have gradually forced CCP's leaders to shift China's economy away from a plan towards a market economy.

Second, China's geography bestows upon the Chinese state certain advantages and disadvantages in its approach to and links with the global economy. These incline the Chinese economy away from the standard IMF/World Bank liberalisation model. Market reform in China has propelled the size of China's economy to number three or two, if purchasing power calculations are used, in the world's rankings [*UNDP, 2002*]. Its huge domestic market is attractive to other countries to sell to and invest in, but it also enables China's industries to exploit significant production economies of scale just by selling at home. Small market economies have to export to gain production economies of scale, but this is not so for China. This asymmetry gives China enormous advantages in bilateral and even multilateral

bargaining over industry support and market access. Thus, in a globalising world, China is in a good position to implement developmental state-type industry policies and selectively adopt features of neo-liberal economic policy to engage with the global economy on terms of its own choosing.

China's geography endows sub-national governments and local actors with power to mediate the central government's market reform and strategic industry policy. China's physical size and large population have enabled its sub-national governments to enjoy a large degree of autonomy from the centre throughout its long history and this has posed enormous challenges to national governance. China's central government has often found it difficult to enforce national policies at the local level without the cooperation of sub-national governments. Post-Mao, Beijing finds that its liberal market reforms and strategic industry policies require active cooperation from sub-national governments but local economic interests often lead sub-national governments to oppose or moderate national policies [*Baum and Shevchenko, 1999; Breslin, 1996; Dougan 2002*].

Finally, in the midst of market reforms, CCP self-reinvention so far has enabled it to remain in power as a monopolistic party. For some, a monopolistic party state with an IMF/World Bank-type market economy is an oxymoron. A monopolistic party in power that functions exclusively and continuously as 'the state' has to prevent the emergence of external groups that can challenge its monopoly on political power and this requires it to have overwhelmingly superior economic power. The party and its supporters can ill-afford to allow other groups to compete equally with it for economic resources on a level playing field.

This article now turns to a more detailed analysis of each of these factors.

II. PATH DEPENDENCY

China's market reform has been gradual compared to the 'big bang' approach to market reform in the post-communist countries of CEE, which follow relatively closely the standard IMF/World Bank reform prescription. A key reason for the difference was the collapse of communist party rule in CEE. This allowed the IMF and World Bank to exert their considerable influence on the reform programmes in these countries and inspired the determination of the non-communist parties there to break up the core centres of the communist parties' influence, which were concentrated in the central planning bureaucracies and state-owned enterprises (SOEs) [*see for example, Steele, 1994: 291–310*]. In China, without the collapse of Communist Party rule, there was no similar rush to replace central planning with the market and to privatise industry. Instead, the market and private enterprise were only to complement the plan and state ownership. Collapse of communist party rule

produced discontinuous institutional change in CEE, but with continuing Party rule in China, the presence of increasing returns to institutions ensures that market reform in China is path dependent. Policy-makers remain constrained by existing theories and ideologies, informal constraints and entrenched interests [*North, 1990*].

Elsewhere [*Liew, 2000*], I have explored the trajectory of China's market reform from when it was first introduced in 1978 to the late 1990s. China's approach to market reform, as would be predicted by North's theory, was gradual and can be described in two phrases: '*momo shitou guo he*' (groping for the stones while crossing the river) and 'Pareto-improving'. The former phrase refers to the Party's emphasis on experimentation and the latter refers to the Party's stated policy to, as far as possible, make no Chinese worse off because of economic reform. As I explained in that article and elsewhere, the endeavour not to make any Chinese worse off was designed to build a constituency within the Party/State in favour of economic reform. I believe the policy also reflected a genuine desire of the Party, at least until 1992, to prevent the emergence of significant income differentials and to avoid social conflict. The Party's revolutionary history helps to explain this desire. In his article, *Building Socialism with Chinese Characteristics*, the architect of China's market reform programme, Deng Xiaoping [*1984: 36*] wrote:

> If we take the capitalist road, we can enable less than 1 per cent of the people of China to become prosperous, but we definitely cannot resolve the problem of how to make 90 odd per cent of the Chinese people prosperous. Therefore, we have to persist with socialism. According to the socialist principle of distribution according to labour, there will not be a large gap between the rich and the poor. After another 20, 30 years, after developing our forces of production, there will not be a two-class differentiation.

The CCP believed that persisting with state ownership could prevent significant income differentials. Following Marxist ideology, the CCP believed that incomes earned only from labour could not lead to large income differentials. Until 1993, mandatory planning and state ownership were inviolable principles of the Party: the market was introduced only to support the plan. The reforming post-communist regimes of CEE were freed from restrictions imposed by Marxist ideology and the need to establish a pro-market reform constituency in the Party/State bureaucracy and therefore never sought a 'Pareto-improving' outcome.

The plan–market system that the Party wanted to adopt was clearly far from the usual IMF/World Bank model of free markets and private ownership. In any case, the plan-market system became unsustainable

because of economic and political developments. The plan–market system was unable adequately to protect SOEs from market competition as corrupt officials diverted massive amounts of critical supplies from the plan to the market. A result of the plan–market system was the 1989 Beijing tragedy when troops fired on demonstrators who were protesting against official corruption and its negative impact on the standard of living of urban residents, who had previously enjoyed access to subsidised goods distributed through the plan.

The Party's response to weaknesses in the plan–market system was to abolish the plan and instead, provide fiscal and banking subsidies to urban households and loss-making SOEs to maintain its Pareto-improving policy. However, these subsidies soon became a huge drain on state finances and impacted negatively on the financial sector. This forced the Party in 1993 to adopt a 'socialist market economy with Chinese characteristics', to officially replace mandatory planning and state ownership with the market and public ownership as core features of China's 'socialist' economy and as two of its central ideological pillars.[5] This 'socialist market economy' recognises that private businesses make valuable contributions to the economy and so effectively sanctions the privatising of state assets. The CCP had to overcome intense objections among its regular members and even among its senior leaders to replace the two central ideological pillars. There was intense debate within the Party's senior hierarchy and in the winter of 1991–92 Deng Xiaoping had to go on a 'southern tour' to garner support from the coastal and southern provinces, which are the major beneficiaries of market reform, for the 'socialist market economy'.

The CCP's implementation of the 'socialist market economy' was grounded in the policy of 'grasping the large and releasing the small' (*zhuada fangxiao*). To 'release the small' is to privatise or contract out small SOEs or to let them go bankrupt.[6] To 'grasp the large' is to turn into world-class businesses a select group of 300 out of a list of 1,000 already successful large enterprises and enterprise groups [*Xie, 1998: 54*]. This is a policy of the state picking and making winners and is encapsulated in the slogan 'support the excellent and the strong' [*Lin, 1998: 183*]. It is South Korean-style industrialisation in place of Soviet-style industrialisation and clearly runs counter to the post-Asian crisis prescriptions of the IMF and World Bank, which are against state-sponsored industry policy. There are, Hall and Soskice [*2001*] point out, many varieties of capitalism; China's variety is just one of the many and is clearly not a clean break from China's pre-reform economic model and the model's approach to industrialisation.

Even more critical than the retention of planning – in the form of state industry policy and support – are the strategic reasons for China not embracing wholeheartedly neo-liberal reforms. The CCP claims that it has

yet to complete its task of nationalist revolution. The CCP continues to face challenges to its rule in Tibet and Xinjiang and its declared historic mission to reunify Taiwan with the 'Motherland' remains unaccomplished. In its attempts to suppress separatist movements in Tibet and Xinjiang, the CCP seeks to win 'hearts and minds' with a policy of massive fiscal subsidies and market intervention to improve standards of living of national minorities in the two provinces [*Liew, 2004: Wang, 2004*]. The policy is designed also to support the livelihood of the large number of Han residents in the two provinces who have been encouraged to migrate there from other provinces to dilute the national minority population for national security reasons [*Becquelin, 2000*].[7]

A concrete example of this policy is official intervention in the cotton market in Xinjiang. Xinjiang's cotton is competitive against other domestic suppliers in price and quality, but is not competitive against overseas imports [*Du, 2000: 251*], and so is hit particularly hard by China's entry into the WTO. A study by China's Academy of Social Sciences forecasting developments in the cotton industry after China entered the WTO projected a nationwide 12.6 per cent fall in production, with a corresponding decline in employment of 22.6 per cent [*Li, Zhai and Xu 2000: 75*]. Safeguarding national unity and successful economic development are the two pillars that sustain the CCP's legitimacy. The state has made Xinjiang's economy highly dependent on cotton and, WTO or no WTO, it is highly unlikely that it will allow the fate of the cotton industry in Xinjiang to be determined solely by market forces, given that it perceives the cost of this outcome to be highly damaging to the national-unity pillar.

III. NEO-LIBERALISM AND GEOGRAPHY

Despite claims by supporters of the neo-liberal economic model of the positive impact of free trade on economic growth, the available empirical evidence to support this claim is inconclusive [*Rodriguez and Rodrik, 2000*]. There is no doubt that exports have contributed to China's phenomenal post-Mao economic growth, but it is less clear that China's gradual lifting of import barriers has had a similar positive effect on economic growth. The reason is China's large domestic market, which challenges neo-liberal prescriptions regarding free trade. The relative factor endowments model of trade that is behind much of the IMF and World Bank trade policy advice to countries assumes constant returns to scale production technology and the presence of competitive markets with many sellers. The negative economic outcome associated with trade intervention depends very much on these assumptions of the model. Changing these assumptions in a model such that they fit better with the realities of China's large domestic market and the

existence of oligopolies in world markets can produce the result where trade intervention is economically beneficial. Krugman [*1984*] showed in his theoretical model that with increasing returns technology and an oligopolistic market structure that import protection for a firm could lead to an increase in its exports. Although Krugman's model is technical, the basic idea behind his model is simple. Import protection for a firm can allow it to compete at home, enabling it to realise economies of scale and lowering its production costs, which makes it competitive in all markets at home and abroad.

Krugman's and other similar theoretical models provide a rigorous economic explanation of why certain countries can continue to implement developmental state-type industry policies in the current post-Asian crisis era. The key is the presence of a large domestic market, which is very attractive to trading partners and enables the domestic firm to exploit economies of scale in production from import protection alone without having to rely on exports. A large domestic market confers China advantages in international bargaining over market access and makes China less vulnerable to trade retaliation against its exports when it uses import barriers to exploit economies of scale in production.

Japan, South Korea and Taiwan, with much smaller populations than China, have successfully carried out strategic industrialisation. But the pinnacle of their success was during the Cold War when the US was willing to allow its strategically important allies to industrialise through trade subsidies. The US kept open its domestic market to subsidised exports from its strategically important allies and acquiesced to their protection of their domestic industries. Now the US no longer has any need to help these countries economically for strategic reasons and often sees them more as economic competitors than as strategic partners. Moreover, there is now a backlash in industrialised countries against globalisation [*Rodrik, 1997*]. Increasing domestic opposition in the US, EU and other industrialised counties to the loss of jobs due to unrestricted imports into these countries has made it much more difficult for industrialising countries, unless they have strong bargaining power, to implement strategic industry polices. Industrialised countries are likely to act against any industrialising country perceived to be supporting its exporting or import-competing industries. The White House in 2004 lifted trade restrictions against steel imports into the US from the EU not because of a ruling from the WTO, but because the EU threatened to impose restrictions on imports from states of the US where President Bush is vulnerable politically. A similar threat from a small country would not carry any weight.

To govern a country with China's physical size and population is a challenging task. State power in China is decentralised by necessity. China has a population of about 1.3 billion and many cities and provinces are as

large as a typical European country. Shanghai has a population of over 16 million and Sichuan over 86 million.[8] It is impossible for any government in Beijing to govern a country the size of China without cooperation from local authorities. Localities in the PRC enjoyed a fair amount of autonomy even at the height of central planning and there was continuous tension between the centre and sub-national governments. Conflicts between the centre and sub-national governments in China, especially over public finance, have a long history that predates the PRC. In traditional China and the PRC until 1994 there was no central tax collection agency. Sub-national governments collected taxes and the centre depended on them to deliver to it its share of the taxes collected. The historic dependence of the centre on tax collection efforts of sub-national governments made rich provinces powerful political actors in the PRC's political system. The political influence of provinces is formalised in the PRC political system where 'province' is a rank in the national political administrative hierarchy that is equal in rank to a national ministry [*Lieberthal, 1995: 164–66*] and although not stated formally, richer provinces rank higher than poorer provinces.

Under Mao, provincial cooperation was necessary to draw up and implement the central plan and provinces were required to have had their own plans, which complemented and supported the central plan. Mao, while he advocated central planning and harangued against localism (*difangzhuyi*), was also a firm believer in self-reliance and local initiative. Post-Mao, the localities have become even more difficult for the centre to control.[9] The post-Mao central government had to intervene directly and forcefully on numerous occasions in the localities to regain macroeconomic control [*Liew, 1995*]. Sub-national governments in China have utilised their large degree of autonomy to become major players, often as shareholders, in local industrialisation, promoting the development of various industries – from those involved in the production of consumer durables, to those involved in high technology production like civil aviation manufacturing [*Dougan, 2002*]. Local industrialisation efforts are not limited to producing globally competitive industries. Sub-national governments also promote local industrialisation to create local employment and to maximise tax revenues. In promoting local economic interests, sub-national governments have even erected trade barriers against domestic products made in other localities [*Gilley, 2001b; Watson et al., 1989*]. The disposition of China's powerful provinces towards strategic industry policies and the desire of sub-national governments to create local employment and raise local tax revenues have led many specialists to argue that sub-national governments and local economic interests, not the central government, are the major impediments to China's WTO compliance [*Johnston, 2003: 15*].

There is no guarantee that China's strategic industry policy, which is pushed by its national and sub-national governments, will be able to duplicate the success of the post-War industry policies of Japan, South Korea and Taiwan. Steinfeld's [*1998*] and Beeson's and Liew's [*2002: 147–54*] studies on SOE reform and Moore's [*2002*] study of China's textile and shipbuilding industries cast doubts on the policy's likely success. State–industry ties date from the days of central planning and remain largely 'particularistic ties of industrial paternalism rather than the universalistic ties of rational–legal authority' [*Moore, 2002: 305*] and competition among sub-national governments weakens further the effectiveness of China's industry policy. However, weakness in strategic industry policy does not translate into strength in market reform. Competition among sub-national governments weakens both market reform and industry policy. In sum, China's geography gives the PRC strong international bargaining power and has produced powerful sub-national governments in China, which together with the PRC's earlier embrace of central planning and continued quest for national unity are producing a form of market liberalism that is situated between the plan and IMF/World Bank neo-liberal models.

IV. NEO-LIBERALISM AND PARTY SELF-REINVENTION

Post-Mao, the CCP has adopted a more liberal approach to managing the national economy. Here there is an inherent ideological contradiction with communist orthodoxy. Therefore, although the CCP remains in power as a monopolistic party, it has had to reinvent itself to do so. The CCP so far appears to be able to successfully reinvent itself by reconfiguring its support base through co-opting the new social strata that have been empowered by market reform. This has been a critical factor in enabling the CCP to remain in power as a monopolistic party. It also ensures that China's market reforms will continue to depart from the standard neo-liberal model. In China, financial resources are required to sustain political power in an increasingly market-oriented economy. This is the key reason why the CCP, as a monopolistic party, will not allow a full and free market: free market competition would serve to erode the party's continuous and dominant control of the economy's financial resources, which is essential if the party is to preserve its political power.

After more than two decades of market reform, the private sector in China increasingly dominates the lives of ordinary citizens. As can be seen from Table 1, the growth of private enterprises in China in the 1990s was phenomenal. The growth of the private sector is occurring despite China's market reforms falling far short of the standard liberalising advice of the IMF and World Bank, but as Hall and Soskice [*2001*] have shown, resistance to

TABLE 1
DEVELOPMENT OF PRIVATE ENTERPRISES

Year	Number ('000)	Annual growth (%)	Employees (10,000)	Annual growth (%)	Registered capital (100 million yuan)	Annual growth (%)
1989	91		164		84	
1990	98	7.7	170	3.7	95	13.1
1991	108	10.2	184	8.2	123	29.5
1992	140	29.6	232	26.1	221	79.7
1993	238	70.0	373	60.8	681	208.1
1994	432	81.5	648	73.7	1448	112.6
1995	655	51.6	956	47.5	2622	81.1
1996	819	25.0	1171	22.5	3752	43.1
1997	961	17.3	1349	15.2	5140	37.0
1998	1201	25.0	1701	26.1	7000	36.2
Nov. 1999	1486	23.7	1901	11.8		

Source: Yan [*2002: 194*].

this advice does not mean that the government is anti-private ownership. On the contrary, the growth of private enterprises could not have been so rapid had it not been for state acquiescence and support.

Accompanying the growth in private enterprise is the shift in the national emphasis from 'politics in command' to 'economics in command', which switches the demand for political activists (cadres) to demand for skilled professionals, managers, and risk-taking entrepreneurs. This shift in national emphasis has weakened the coercive powers of the Party/State and its control over financial and human capital resources. While China's economic growth originating in market reform has been spectacular and has enabled substantial poverty reduction, this has come at a cost of rapid and significant increases in income inequality. China's Gini coefficient increased from 0.288 in the 1980s to 0.388 in the 1990s, transforming China from one of the world's most equal countries (in terms of income) before reform to one in the middle of world rankings [*World Bank, 1997: 2*].[10] China's entry into the WTO is predicted to increase inequality further [*Zhai and Li, 2002*].

The significant change in income distribution and shift in national priority from 'making revolution' to 'making money' has produced a profound shift in popular perception of the relative status of social groups. Table 2 shows the outcome of a survey, conducted by China's Academy of Social Sciences in three cities (Shenzhen, Hefei and Hanchuan) and one county (Zhenning), of how members of different social strata evaluate their social standing [*Lu, 2002*]. Two observations from the data are particularly interesting. First, even casual and unemployed workers rank themselves higher than peasants rank

TABLE 2
SELF EVALUATION OF SOCIAL STANDING

Social stratum	Social standing (max 10 pts) Shenzhen	Hefei	Hanchuan	Zhenning
Political and civic leaders	6.8	5.4	**5.5**	4.7
Managers	6.4	5.6	4.9	na
Private entrepreneurs	**7.1**	**6.0**	4.0	4.0
Professional and technical staff	6.2	5.7	5.1	**5.4**
Non-professional white-collar	5.6	5.5	4.7	4.3
Small business owners	5.8	4.7	4.4	4.2
Service workers	4.9	5.1	4.0	4.6
Production workers	5.3	4.8	4.4	3.8
Peasants	na	na	3.8	3.7
Casual workers/unemployed	5.7	5.2	4.1	4.3
Average	5.7	5.2	4.2	3.9

Source: Lu [*2002*: *32*]

themselves. Second, private entrepreneurs rank themselves higher than do political and civic leaders in three of the four places surveyed. In Shenzhen, the city in China's southern Guangdong Province specially built as one of four special economic zones at the beginning of reform,[11] and Hefei, the capital of Anhui Province, private entrepreneurs rank themselves higher than political and civic leaders rank themselves. In Hefei, political and civic leaders rank themselves below the level that managers, professional and technical staff, and even non-professional white-collar staff rank themselves. In Zhenning, political and civic leaders rank themselves below the level that professional and technical staff rank themselves, but above the level selected by private entrepreneurs.

The CCP leadership have recognised that under these social and political conditions it cannot sustain its hold on power without the Party transforming itself. The change described here is so profound that we can describe it as the Party's self-reinvention. The CCP reinventing itself has meant changing the 'body and soul' of the Party. In practice this involves changing the characteristics of Party members ('body'), especially that of Party elites, and redefining the Party's ideology ('soul'). The Party is keen to co-opt the growing elite of skilled professionals, managers, and private entrepreneurs. Their bargaining power *vis-à-vis* the Party/State has continued to strengthen while marketisation gives professionals, managers and entrepreneurs wealth, leverage and space to pursue their interests within a political marketplace.[12]

How has the Party changed its soul? Jiang Zemin, the former Party general secretary who took over from the disgraced Zhao Ziyang in 1989, delivered an important speech at the 14th Party Congress in 1992, which called on the people not to debate whether certain reform methods are socialist or

capitalist, but to concentrate on production [*Jiang, 1992: 2*]. By shifting the attention to production, the CCP is able to justify the nation's ever widening income differentials. Instead of preventing widening income gaps, especially from large returns to private capital and skill, the CCP is defending income differentials and is resorting to appeals for those in front economically to lead those behind to achieve common prosperity [*CCP, 1993: 22*]:

> It is necessary to introduce competitive mechanisms for rewarding individual labour and break away from egalitarianism, so as to implement the principle of more pay for more work and rationally widen the income gap.... [T]hose who have become well off should be encouraged to lead forward and support those lagging behind, so as to achieve common prosperity.

The message here is explicit. Egalitarianism is not the national ideal, income maximisation is. This requires 'those who have become well off' to lead from the front. In Jiang Zemin's report to the 16th Party Congress in 2002, he invoked the notion that whether a person is politically advanced (*xianjin*) or backward (*luohou*) does not depend on whether the person owns any personal property or how much personal property the person owns. What are important are the person's political thinking, his or her *biaoxian* ('compliant and supportive behaviour') towards the Party, how the property is acquired, how it is used and the person's contribution in 'building socialism with Chinese characteristics' [*Jiang, 2002b: 15*]. Thus, the working class is no longer necessarily considered the class that will lead from the front, and this paves the way for the Party to change its 'body'. In his speech to celebrate the 80th anniversary of the foundation of the CCP on 1 July 2001, Jiang Zemin [*2001*] made it clear that those who should lead are members of the new social strata such as private sector entrepreneurs, managers and professionals. These new rich can remain in the Party or are welcome to join because they are 'productive forces' and are therefore potential 'advanced elements of society'.

Indeed, the Party has to rely on what it considers to be 'advanced elements of the new social strata'. Their interests are more closely aligned with those of the Party than are the interests of workers and peasants. Members of the new strata are the major beneficiaries of the Party's policy on the economy and are therefore more likely to share the Party's vision of a socialist market economy and thereby support the Party. Moreover, money and political influence go together in a market economy and money increasingly buys political voice. Marketisation introduces a situation where money and competition commodify power and influence and tie the political marketplace to the market economy. This is the case even when there is no serious

electoral contest in China since power through regulation or influence does not require an electoral system and operates effectively through corruption and money politics. The new rich are in a position with their financial resources to buy influence, and perhaps power, and the Party recognises that it has to co-opt them lest they form an external threat. Furthermore, political mobilisation requires financial resources, to which the new wealthy strata have ever greater absolute and relative access and the old Party elites had ever less relative access. Here we see the reasons for the making and remaking of Party elites. In a widely publicised case of resistance by the new rich to the CCP, in 1992, villagers in China's richest village, Daqiu, south of the northern port city of Tianjin, challenged Party rule, which ended only with the intervention of para-military forces. The village rebel leaders were able to organise and mobilise against the Party only because they had the economic means to do so [*Gilley, 2001a*].[13]

The 16th Party Congress amended the Party's constitution and legitimised the previously illegitimate Party membership of many private entrepreneurs. The revision of the CCP constitution at this Congress symbolises the formal reinvention of the CCP. The former CCP constitution starts with a declaration that the CCP is the vanguard of the working class. In the revised constitution, the Party declares itself to be the vanguard not only of the working class but of Chinese peoples of all nationalities [*CCP, 2002: 57*]. Article One in Section One of the revised constitution states that Party membership is opened to workers, peasants, members of the armed forces, intellectuals and advanced elements of other social strata who are 18 years and above [*CCP, 2002: 66*]. Here recognition and legitimation of new social classes are made explicit as is their eligibility for Party membership. With the amendment to its constitution, the CCP formally embraces the new class structure and transforms itself from a revolutionary Party for the working class to a ruling Party, at least in theory, for the whole people irrespective of their class.

In sum, the Party changes its 'body' in two ways. First, is the reinvention of Party elites as many in the Party remake themselves into technocrats and entrepreneurs in the service of market reform in order to remain relevant to the Party and to maintain their power and influence in the Party. Second, it accepts into the Party a new category of members who are brought into the Party from the 'advanced elements of other social strata' to prevent the creation of power centres that are external to the Party.

Many Party members have in fact transformed themselves from Party activists into skilled professionals or even entrepreneurs when the state corporatises or privatises its enterprises. One Party member who has remade herself is Guo Fenglian, the well-known 'iron maiden' poster girl of the Cultural Revolution era who has become an icon of entrepreneurship. Guo comes from Dazhai, the village in the slogan, 'In agriculture learn from

Dazhai', coined by Mao Zedong to celebrate the ideology of 'self-reliance'. She joined the Party when she was 14. Now 56, she runs 12 enterprises, which had a combined output of 100 million yuan (about US$12 million) and employed more than 1,000 workers [*South China Morning Post, 2002: 4*].

As an indication of their increasing influence in recent years, private entrepreneurs have been 'elected' to sub-national people's congresses in increasing numbers. A survey of private entrepreneur membership in the provincial parliament (*renda daibiao*) in the capital of Hebei province, Baoding, in the mid-1990s for example, found that 15.5 per cent (100 of 644) of members were private entrepreneurs [*Yan, 2002: 203*]. Furthermore, as indicated in Table 3, many private entrepreneurs were already members of the CCP before the 16th Party Congress. The Forbes team that drew up China's 2002 'rich list' estimated that 25 per cent of those in the list are Party members [*Hoogewerf, 2002*] and Dickson [*2003: 108*] estimated that about 20 per cent of private entrepreneurs are Party members.

Theorists like Diamond [*2003*] emphasise that economic development will create pressures for democratisation only if it is accompanied by rising levels of education, the growth of a diverse middle class that is independent of the state, and the creation of a 'pluralistic, active and resourceful civil society'. However, it is clear that the CCP's self-reinvention is designed to *prevent* the emergence of an autonomous civil society. At a time when it is seeking to recruit members from the newly economically empowered strata, the Party is actively denying autonomy to potentially influential civil organisations formed by members of these strata that choose to remain outside the Party.

While some argue that an active civil society is emerging in China [*He, 2003; Pei, 1998*], it remains true that the most influential civil organisations are not autonomous of the state [*Yu, 2002: 216–20*]. Although official regulations demand that civil organisations sever all official ties with the Party and government, the government is still the sponsor of most professional associations. According to official regulations, a civil organisation must first be affiliated to a Party or government organ before it can be registered. The civil organisation, once registered, is accountable to that organ. Furthermore, although official regulations state that Party and government officials above the division level (*zhichu*) cannot serve as leading officials of civic organisations, former senior Party and government officials continue to fill almost all the senior leadership positions in important civic associations. For example, a former minister of the State Economic Commission became president of the National Council of Industrial Economics [*Yu, 2002: 218*]. Retired village Party secretaries often serve as presidents of village senior citizens' association and the Party appoints the officials of chambers of commerce at both central and sub-national levels. Officials in many civic associations are like public servants, who rotate

TABLE 3
PROPORTION OF SOCIAL STRATA WHO ARE PARTY, OR FORMER OR CURRENT YOUTH LEAGUE MEMBERS 2001

	Shenzhen (%)		Hefei (%)		Hanchuan (%)		Zhenning (%)	
Social stratum	Party	Youth League	Party	Youth League	Party	Youth League	Party	Youth League
Political and civic leaders	100	100	77.5	95	100	90	100	93.3
Managers	35.7	76.8	58.8	97.1	53.8	61.5	na	na
Private entrepreneurs	22.2	85.2	24.4	72.1	9.1	45.5	0	0
Professional and technical	27.2	86.4	25.2	88.2	17.8	73.3	24	67.3
Non-professional white-collar	28.2	87.4	40.7	83.6	54.5	75.3	46.3	44.4
Small business owners	13.7	60.8	10.4	52.8	7.7	41	5.2	11.8
Service workers	10.4	59.5	7.6	68.3	10.6	55.3	3.9	28.8
Production workers	0	72.2	13.3	72.9	5.9	31.1	10.3	21.6
Peasants	na	na	na	na	4.3	23.9	5.2	10.2
Casual workers/unemployed	2	58.4	9.1	58.3	1.8	46.4	3.9	9
Average	17.5	73.1	23.4	74.1	12.1	40.3	6.7	12.9

Source: Lu [*2002: 36*]

between positions in Party–government and civic associations. Some Party members who are alarmed by endemic official corruption have called for an active civil society to supervise the Party [*see, for example, He, 2002*].

In a widely publicised article in the official newspaper of the Guangzhou Party committee, *Nanfang ribao* [*Ren, 2000*], Ren Zhongyi, a former Party Secretary for Guangdong Province, writing on the 'Four Cardinal Principles' (*si xiang jiben yuanze*), called for external supervision of the Party.[14] According to Ren, for the Party to lead well, it must be supervised because 'absolute power corrupts absolutely' (*juedui de quanli hui daozhi juedui de fubai*). As Ren claimed, 'The Communist Party supervising itself is like using one's left hand to supervise one's right hand'. However, the official Party position is that only the Party should be allowed to supervise the Party [*Jiang, 2002a: 7*]. The Party's desire to retain its monopoly power outweighs its concern with official corruption.

Nevertheless, endemic official corruption has forced the Party to introduce institutional reforms such as appointments based on merit as opposed to personal connections, and village elections to achieve greater accountability [*Li and O'Brien, 1999; Nathan, 2003*]. The increasing complexity of managing a market economy exposed to global economic forces is another reason for the CCP regime's institutionalisation [*Shambaugh, 2001*]. The Party's self-reinvention and pursuit of institutional reform are efforts at political renewal, which are intended to preserve its position as a monopolist of political power. That members of the middle and entrepreneurial classes, the new social strata that the Party wishes to co-opt, are lukewarm in their support for democracy, is helping the Party to preserve its monopoly political power.

The assertion of the existence of a causal relationship between the size of the middle class and successful democratic transition assumes members of the middle class demand democracy, which is not necessarily the case everywhere [see *Bellin, 2000*]. While the middle class is growing in China, only 15 per cent of the population are members of this class and they are not strong advocates for democracy [*Lu, 2002: 73*]. This pessimism about middle class support for democracy in China is supported by interviews of the middle class conducted by An Chen [*2002: 13*], who found them to have a 'disposition against lower-class empowerment'. Similar elitist views against lower-class empowerment are held by most entrepreneurs in a survey on political beliefs of private entrepreneurs in China [*Dickson, 2003: 135*].

Several China specialists writing in a special issue of *Journal of Democracy* in January 2003 discussed the CCP's post-Mao efforts at political renewal. As expected, there was disagreement among them on the success or otherwise of the CCP's efforts. Minxin Pei neatly sums up the opposing conclusions of the specialists: 'political renewal is still a work in

progress, while political decay has yet to reach a terminal stage' [*Pei, 2003: 80*]. One could speculate about China's political economy should the CCP's political decay not become terminal. But it is clear that as long as the CCP survives as a monopolistic party, which it has managed to do so far, it will never allow market competition on a level-playing field. Allowing the use of a level-playing field runs counter to the Party's imperative to secure dominant control over the country's financial resources lest social groups external to the Party obtain significant independent sources of finance that can provide them with the capability to pose a serious challenge to the Party's monopoly power.

V. CONCLUSION

The Asian crisis has not altered fundamentally the form of China's engagement with neo-liberal economic policy. China has not embraced the IMF and World Bank neo-liberal model and the state continues to mediate and direct China's market reform. Three principal factors continue to influence how the state mediates China's neo-liberal engagement: path dependency, China's geography and the CCP's successful post-Mao self-reinvention that has enabled it to remain in power as a monopolistic party. The CCP cannot simply disown its history as a revolutionary and nationalist party. The CCP's mission to achieve national unity has special significance here. Safeguarding national unity is one of the two pillars of the CCP's legitimacy, alongside successful economic development. This severely limits the CCP's freedom to leave economic development in the restive provinces of Tibet and Xianjiang entirely to market forces.

China's geography is conducive to the implementation of developmental state-type policies because its large domestic market presents significant economies of scale in production and gives China bargaining power in international negotiations over industry support and market access in the current era of globalisation. Moreover, China's size and population bestows upon sub-national governments a significant degree of independence from the centre and they have utilised this independence to promote local industry even to the extent of erecting regional blockades against domestic goods from other localities. China's centre–local policy conflicts have a long history that predates the PRC and localities will contest China's WTO compliance with varying degrees of success.

Finally, the CCP has reinvented itself by co-opting wealthy and potentially powerful new groups of middle and entrepreneurial classes that its market reforms have created. These groups are lukewarm in their support for democracy and the CCP's reinvention has allowed the CCP to remain a monopolistic party in power. As a monopolistic party in a market economy,

where financial power has a huge bearing on political power, the CCP has to retain dominant financial power and keeps within the fold, or least on side, others who have financial power. This imperative determines that the Party cannot allow fair economic competition among market actors; the playing field has to be sloped to favour the Party and its supporters. Thus path dependence, geography and the Party's self-reinvention will ensure that China's engagement with economic liberalism will not conform to the neo-liberal model and will remain a loose hug rather than an intimate embrace.

NOTES

1. There are doubts over the reliability of China's official statistics. Annual growth rates may have been overestimated by up to 2 per cent, but even if growth rates are lower by 2 per cent, China's economic growth in the reform period remains very impressive and ranks comfortably among the world's ten fastest growing economies [*Lardy, 2002: 12; World Bank, 1997a: 3*].
2. However, Sachs and Woo [*2000*] argued that China's strategy is the result of conditions that are unique to China and therefore cannot always be adopted by other transition countries.
3. The remaining pillar of the IMF/World Bank model is monetary and fiscal austerity. It was a key feature of China's pre-reform model and China remains committed to it. CCP leaders are very afraid of inflation because hyperinflation in the late 1940s contributed to defeat of the Nationalists (*Guomindang*). For more details regarding the World Bank's and IMF's preferred model, see Beeson and Islam, this volume.
4. This is a clear implication of the Heckscher-Ohlin factor endowment theory of international trade, which is the intellectual foundation behind the IMF/World Bank push for free trade. The theory is taught in all university-level international trade courses and appears in all textbooks on international trade. See Appleyard and Field [*2001: 117–39*] for an excellent exposition of the theory.
5. Public ownership is group ownership where no one individual has a controlling interest and the major owners are primarily domestic institutions and the state, with the possibility of foreign participation.
6. Cao, Qian and Weingast [*1999*] argued implicitly that privatisation of small SOEs can be Pareto-improving in some instances because small SOEs are often privatised to employees at a discount and some former SOEs become profitable after a change in ownership. Hence retrenched workers are compensated ex-post with help from the local government to find new jobs or buy into the privatised SOE business at a discount that creates an ex-post environment, with workers having new sources of income. Workers then neither oppose privatisation nor demand subsidies.
7. The policy is part of a larger project to spur economic development in all the poor western provinces [*Gao et al., 2000*].
8. If one includes the population of its capital, Chongqing, which has provincial status and has a population of 30 million, the population of Sichuan is over 116 million [*NBSC, 2002: 94*].
9. The influence of the localities can be gauged by the crucial role some of them played in supporting the introduction of post-Mao reform in the late 1970s [*Shirk, 1993*] and, as I discussed earlier, in helping Deng to push through the 'socialist market economy' in the early 1990s.
10. Some studies give Gini estimates as high as 0.49. See for example Wang, Hu and Ding [*2002*].
11. The others are Zhuhai, Shantou and Xiamen.
12. Neo-liberals argue power operates in a kind of political marketplace.
13. At the beginning, the villagers of Daqiu rebelled against CCP economic policies. Later the villagers fought discrimination against the new rural rich. The CCP finally cracked down on

the villagers when they directly challenged Party rule. The village Party secretary, Yu Zuomin had a slogan that said 'If you want to get rich, then abolish the party organisation' [*cited in Gilley, 2001a: 156*]

14. The Four Cardinal Principles are Party leadership, socialist road, dictatorship of the proletariat (people's democratic dictatorship), and Marxism-Leninism-Mao Zedong Thought.

REFERENCES

Appleyard, D.R. and A.J. Field Jr., 2001, *International Economics*, New York: McGraw-Hill Irwin.

Baum, R. and A. Shevchenko, 1999, 'The "State of the State"', in M. Goldman and R. MacFarquhar (eds), *The Paradox of China's Post-Mao Reforms*, Cambridge, Mass: Harvard University Press.

Becquelin, N., 2000, 'Xinjiang in the Nineties', *The China Journal*, No.44.

Beeson, M. and L. Liew, 2002, 'Capitalism in East Asia: The Political Economy of Business Organisation in Japan, Korea and China' in M. Beeson (ed.), *Reconfiguring East Asia: Regional Institutions and Organisations After the Crisis*, London: RoutledgeCurzon.

Bellin, E., 2000, 'Contingent Democrats. Industrialists, Labor, and Democratization in Late-Developing Countries', *World Politics*, Vol.52, No.1.

Breslin, S., 1996, *China in the 1980s: Centre–Province Relations in a Reforming Socialist State*, New York: St. Martin's Press.

Cao, Y., Qian, Y. and B.R. Weingast, 1999, 'From Federalism, Chinese Style to Privatization, Chinese Style', *Economics of Transition*, Vol.7, No.1.

CCP, 1993, 'Decision of the CPC Central Committee on some Issues Concerning the Establishment of a Socialist Market Economic Structure', *Beijing Review*, 22–28 Nov.

CCP, 2002, 'Zhongguo gongchandang zhangcong' (Chinese Communist Party Constitution) in *Zhongguo gongchandang di shiliuci quanguo daibiao dahui wenjian huibian* (Compilation of Documents from the 16th National Party Congress of the Chinese Communist Party), Beijing: Renmin chubanshe.

Chen, A., 2002, 'Capitalist Development, Entrepreneurial Class, and Democratisation in China', *Political Science Quarterly*, Vol.117, No.3.

Deng, X., 1984, *Jianshe you Zhongguo tese de shehuizhuyi* (Building Socialism with Chinese Characteristics), Beijing: Renmin chubanshe.

Diamond, L. 2003, 'Universal Democracy?', *Policy Review*, No.119.

Dickson, B.J., 2003, *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change*, Cambridge: Cambridge University Press.

Dougan, M., 2002, *A Political Economy Analysis of China's Civil Aviation Industry*, New York: Routledge.

Du, L., 2000, 'Xinjiang nongxuye fazhan zhanlue' (Strategy for Developing Xinjiang's Agriculture and Husbandry) in L. Ye and M. Tu (eds.), *Zhongguo nongcun fazhan yanjiu baogao 1* (China's Rural Development Report 1), Beijing: Shehui kexue wenjian chubanshe.

Gao, Z., Gao, M., Zhang, S, Wang, S., Meng, G. and Y. Tang, 2000, *Xibu da kaifa zhi lu* (The Road to Grand Development of the Western Region), Beijing: Jingji kexue chubanshe.

Gilley, B., 2001a, *Model Rebels: The Rise and Fall of China's Richest Village*, Berkeley: University of California Press.

Gilley, B., 2001b, 'Breaking Barriers', *Far Eastern Economic Review*, 11 Sept.

Hall, P. and D. Soskice (eds.), 2001, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press.

He, B., 2003, 'The Making of a Nascent Civil Society in China', in D. Schak and W. Hudson (eds.), *Civil Society in Asia*, Aldershot: Ashgate.

He, Z., 2002, Fan fu xinlu (New Path to Combat Corruption), Beijing: Zhongyang bianyi chubanshe.

Hoogewerf, R., 2002, '2002 China Rich List', *Forbes*. < http://www.forbes.com/global/2002/1111/056.html > (accessed 2 May 2003).

Jiang, Z. 1992, 'Jiakua gaige kaifang he xiandaihua jianshe bufa, duoqu you Zhongguo tese shehuizhuyi shiye de genda shengli' (Speed up Reform, Open Door, and Modernization to Strive for Greater Victories in Constructing Socialism with Chinese Characteristics), *Renmin ribao (People's Daily)*, 21 Oct.

Jiang, Z., 2001, 'Speech at the Meeting Celebrating the 80th Anniversary of the Foundation of the CPC', 1 July, *Beijing Review*, Nos. 28-29.

Jiang, Z., 2002a, 'Gaoju Deng xiaoping lilun weida qizhi, quanmian guanche "sange daibiao" yaoqiu yushijujin nuli kaichuang jianshe you zhongguo tese shehuizhuyi shiye xin jumian' (Raise High the Banner of Deng Xiaoping's Theory, Comprehensively Implement Demands of "The Three Representations" and in Keeping Up With the Times Diligently Initiate the New Phase of the Task of Constructing Socialism With Chinese Characteristics), *Renmin ribao* (People's Daily), 1 June.

Jiang, Z., 2002b, 'Quanmian jianshe xiaokang shehui, kaichuang Zhongguo tese shehuizhuyi shiye xin jumian' (Comprehensively Build a Comparatively Well-off Society, Start a New Phase in Socialism With Chinese Characteristics) in *Zhongguo gongchandang di shilinci quanguo daibiao dahui wenjian huibian* (Compilation of Documents from the 16th Party Congress of the Chinese Communist Party), Beijing: Renmin chubanshe.

Johnston, A.I., 2003, 'Is China a Status Quo Power?', *International Security*, Vol.27, No.4.

Krugman, P., 1984, 'Import Protection as Export Protection: International Competition in the Presence of Oligopoly and Economies of Scale', in Kierzkowski, H. (ed.), *Monopolistic Competition in International Trade*, Oxford: Oxford University Press.

Lardy, N., 2002, *Integrating China into the Global Economy*, Washington DC: Brookings Institution Press.

Li, L. and K. J. O'Brien, 1999, 'The Struggle Over Village Elections', in M. Goldman, and R. MacFarquhar (eds.), *The Paradox of China's Post-Mao Reforms*, Cambridge: Harvard University Press.

Li, S., Zhai, F. and L. Xu, 2000, 'Jiaru shijie maoyi zuzhi dui Zhongguo de yingxiang' (Impact on China from entry into the WTO) in Y. Yu, B. Zheng and H. Song (eds.) *Zhongguo 'rushi' yanjiu baogao: jiaru WTO de Zhongguo chanye* (Research Report on China's Entry into the WTO: Impact on China's Industries), Beijing: Shehui kexue wenjian chubanshe.

Lieberthal, K., 1995, *Governing China: From Revolution Through Reform*, New York: W. W. Norton & Co.

Liew, L.H., 1995, 'Gradualism in China's Economic Reform and the Role for a Strong Central State', *Journal of Economic Issues*, Vol.29, No.3.

Liew, L.H., 2000, 'China's Economic Reform Experience: The End of a Pareto-Improving Policy', *China Information*, Vol.14, No.2.

Liew, L.H., 2004, 'Reaching Out to Taiwan, Keeping in Xinjiang: The Impact of Marketisation and Globalisation on National Integration' in L.H. Liew and S. Wang, (eds.), *Nationalism, Democracy and National Integration in China*, London: RoutledgeCurzon.

Lin, Y., 1998, 'Lun kua hangye qiye jituan de zujian tiaojian' (Discussion on the Conditions Required for Formation of Diversified Business Groups). *Jingji guanli (Economic Management)*, No.5.

Lu, X. (ed.), 2001, *Dangdai Zhongguo shehui jiecang yanjiu baogao* (Research Report on Social Stratification in Contemporary China), Beijing: Shehui kexue wenxian chubanshe.

Moore, T.G., 2002, *China in the World Market: Chinese Industry and International Sources of Reform in the Post-Mao Era*, Cambridge: Cambridge University Press.

Nathan, A.J., 2003, 'Authoritarian Resilience', *Journal of Democracy*, Vol.14, No.1.

National Bureau of Statistics of China (NBSC), 2002, *China Statistical Yearbook 2002*, Beijing: China Statistics Press.

National Bureau of Statistics of China (NBSC), 2003, *China Statistical Yearbook 2003*, Beijing: China Statistics Press.

North, D., 1990, *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.

Pearson, M., 1999, 'China's Integration into the International Trade and Investment Regime', in E. Economy and M. Oksenberg (eds.), *China Joins the World: Progress and Prospects*, New York: Council on Foreign Relations Press.

Pei, M., 1998, 'Chinese Civic Associations: An Empirical Analysis', *Modern China*, Vol.24, No.3.

Pei, M., 2003, 'Contradictory Trends and Confusing Signals', *Journal of Democracy*, Vol.14, No.1.

Ren, Z., 2000, 'Zai tan jianchi si xiang jiben yuanze' (Revisiting the Four Cardinal Principles), *Nanfang ribao* (Nanfang Daily), 29 April, < http://www.nanfangdaily.com.cn/nf/0004/29 >

Rodriguez, F. and D. Rodrik, 2000, 'Trade Policy and Economic Growth: A Sceptic's Guide to the Cross-National Evidence', in B. Bernake and K. Rogoff (eds.), *NBER Macroeconomics Annual 2000*, Cambridge, Massachusetts: National Bureau of Economic Research.

Rodrik, D., 1997, *Has Globalization Gone Too Far?* Washington DC: Institute for International Economics.

Sachs, J. and W.T. Woo, 2000, 'Understanding China's Economic Performance', *Journal of Policy Reform*, Vol.4, No.1.

Shambaugh, D., 2001, 'The Dynamics of Elite Politics during the Jiang Era', *The China Journal*, No.45.

Shirk, S., 1993, *The Political Logic of Economic Reform in China*, Berkeley: University of California Press.

South China Morning Post, 2002, 'Mao's Poster Girl Becomes Capitalist Icon', 9 Nov.

Steele, J., 1994, *Eternal Russia*, London: Faber and Faber.

Steinfeld, E.S., 1998, *Forging Reform in China: The Fate of State-Owned Industry*, New York: Cambridge University Press.

Stiglitz, J.E., 2002, *Globalization and its Discontents*, New York: W.W. Norton & Co.,

UNDP, 2002, *Human Development Report*. < http://hdr.undp.org/reports/global/2002/en. >

Wang, S., Hu, A. and Y. Ding, 2002, 'Laize shehui bumanzhe de yanzhong jinggao: Zhongguo shehui bu wending de zhuangkuang diaocha yu fenxi' (Warning from society's disaffected: investigation and analysis into China's social instability), *Zhanlue yu guanli* (Strategy and Management), No.3.

Wang, S., 2004, 'For National Unity: The Political Logic of Fiscal Transfer in China', in L.H. Liew and S. Wang (eds.), *Nationalism, Democracy and National Integration in China*, London: RoutledgeCurzon.

Watson, A., Findlay, C. and Y. Du, 1989, 'Who Won the "Wool War"?: A Case Study of Rural Product Marketing in China', *The China Quarterly*, No.118.

World Bank, 1997a, *China 2020*, Washington, DC: The World Bank.

World Bank, 1997b, *China 2020: Sharing Rising Incomes*, Washington DC: The World Bank.

Xie, C., 1998, 'Zhonggong shiwuda hou: guoyou qiye gaige zhi yanxi' (Post CCP Fifteenth National Congress: Analysis of SOE Reform), *Gongdang wenti yanjiu* (Research on Communist Party Issues), June.

Yan, Z. (ed.), 2002, *Zhongguo xian jieduan jieji jieceng yanjiu* (Research on Class and Social Stratification in China's Current Period), Beijing: Zhongguo zhongyang dangxiao chubanshe.

Yu, K., 2002, 'Zhongguo gongmin shehui de xingqi jiqi dui zhili de yiyi' (The Emergence of China's Civil Society and its Significance to Governance) in K. Yu, (ed.), *Zhongguo gongmin shehui de xingqi yu zhili de bianqian* (The Emergence of Civil Society and its Impact on Governance in China), Beijing: Shehui kexue wenzhai chubanshe.

Zhai, F. and S. Li, 2002, 'The Impact of WTO Accession on Income Disparity in China', in M. Renard (ed.), *China and its Regions: Economic Growth and Reform in Chinese Provinces*, Cheltenham: Edward Elgar.

INDEX

Page numbers in *italics* represent Tables. Page numbers on **bold** represent Figures

Abdullah Badawi 90, 103, 105, 106, 107, 108
aid: dependency 69; and growth 17; and poverty 17; reasons for 12, 17; and Vietnam 77, 78, 79, 81, 83
American capitalism 3
Amsden, A.H. 48
Anti-Corruption Agency (ACA, Malaysia) 106
Anwar Ibrahim 92, 95, 96
ASEAN (Association of Southeast Asian Nations) 16, 103
Asia Policy Forum 11
Asian capitalism 13, 115, 117
Asian Monetary Fund (AMF) 16
augmented-Washington Consensus (AWC) 6–7, *6*; criticism 10–12; and good governance 6–7; and Letters of Intent 8; ownership structure 15

Bank Central Asia 33
Bank Indonesia Liquidity Support 31
Bank of Korea 51, 52
Bank Negara (Malaysia) 93–4
BLBI (Bantuan Likuiditas Bank Indonesia) 31
Bretton Woods institutions *see* International Monetary Fund; World Bank
business elites (Malaysia) 90, 92–8, 100, 108

California Public Employees' Retirement System (CalPERS) 102
Camdessus, M. 117
capital controls 88, 96, 97, 98, 101, 109
Capital Market Masterplan (Malaysia) 100
capitalism: American 3; Chinese 140; crony 8, 115, 121; in East Asia 13, 115, 117; in eastern Europe 9–10; following World War II 4; global 82; liberal 4; predatory 29; regulated 2; Sino-Thai banking 119–20; state 27
Central Bank Liquidity Funds (BLBI, Indonesia) 31
chaebols: and the convoy system of business 56; effect of Daewoo's

bankruptcy 55; management 51; and non-bank financial institutions (NBFIs) 51; policy making 59; public perception 57, 58, 61; and reform 52, 53, 54–7; relationship with the government 60; rise 49; support 58–9
Chandra Asri 32, 33
China: conclusions 152–3; and democracy 149, 151; domestic market 137, 141; entrepreneurship 148–9; geography 137, 152; import barriers 141–2; income inequality 145, 147; national unity 141; neo-liberal policies 138, 139, 144–53; overview 135–8; plan-market system 139–40; and poverty 135; private sector 144–5, *145*, 147, 148–9; public finance 143; social strata 145, *146*, 147; state industry policy 136, 140–1, 144; sub-national governments 138, 142–3, 152, *see also* Chinese Communist Party (CCP)
Chinese Communist Party (CCP): common prosperity 147, 148; and communism in central and Eastern Europe 137, 138–9; corruption 151; economic power 147–8, 152; external supervision 151; fiscal subsidies 141; legitimation of new social classes 148–9, *150*; provincial cooperation 143; self-reinvention 138, 139, 144–53; socialist market economy 136, 140, 141
Chomsky, N. 2
Chuan government (Malaysia) 118–19, 120, 121, 122
Comprehensive Poverty Reduction and Growth Strategy (CPRGS, Vietnam) 80
Corporate Debt Restructuring Committee (CDRC, Malaysia) 96
corruption: in the Chinese Communist Party (CCP) 151; in East Asia 8; in Indonesia 32; and KKN (korupsi, kolusidan nepotism) 39; in Malaysia 89, 94, 99, 104, 105, 106, 108, 110; in Thailand 115, 121; in Vietnam 72–3, 74
crony capitalism: and IFIs 8; and Thailand 115, 121

Daewoo 54–6
Daim Zainuddin 92, 98
Danaharta 99, 101
debt 31–2, 33
decentralisation 30, 34, 37–40, 126
definitions: of neo-liberalism 2, 3–7, 67, 70, 116–18, 136
democracy: in China 149, 151; globalisation 15; in Indonesia 4, 33–5, 40, 41; and Korea 48; in neo-liberal thinking 33–4; reform 7
democratic transitions literature 34–5
Deng, X. 139
developing countries: collective action 14; growth slow down 9; and ownership of IFIs 15
developmental state model: and China 142; definition 48; and Japan 13, 48; and Korea 47–8, 52, 53, 59
developmental strategies 66, 67–8
Diamond, L. 149
dispatch centres (Korea) 50

doi moi see economic reform
domestic capital 122, 124, 126, 130
domestic markets 17, 115–16, 119, 121

eastern Europe: and capitalism 9–10; and communism 1, 37, 138–9; inequality 9–10; poverty 10
economic policy: best practice 8; for the future 14–16, 17–18; global debate 1; regional mechanisms 16, 17
economic reform 1, 7, 65–7, 70, 72–3, 135–6
Economics Planning Board (EPB, Korea) 48
Employees' Provident Fund (EPF, Malaysia) 97, 99, 104
employment 4–5, 11, 12
The Enterprise Law (2000) 68
equitisations 75, 76, 79, 83
equity markets (Malaysia) 97
Europe *see* eastern Europe
exchange rates 4

failure: of neo-liberalism 3
financial institutions *see* international financial institutions (IFIs)
financial sector reform 50–1
Financial Securities Commission (FSC, Korea) 51
fiscal deficits 11
foreign investment: in Malaysia 90–3, 98, 101, 102; in Thailand 120–1, 125–6, 127
free market agendas 27
free trade zones (FTZs) 91
General Corporations (Vietnam, 1994–5) 75
global economic governance 7, 16
global inequality 9
global markets 15
global policy issues 16
globalisation 15, 69, 116, 142; and Korea 53
globalised enclaves 88, 89, 90–3, 102, 104, 110
good governance 7, 8, 38, 100
governance: corporate 51; democratic 15; global economic 7; good 7, 8, 38, 100; and the Washington Consensus 7
growth: and aid 17; and fiscal deficits 11; and inflation 10; and poverty 11; slow down 9, 17; tariffs 10
Guo Fenglian 148

Haggard, S. 95
Hall, P. 13
Henderson, J. 47
Higgott, R.A., and Nesadurai, H.E.S. 116
Hilley, J. 93
history: of East Asia 5; of neo-liberalism 2, 3–7
human rights 15

IBRA (Indonesian Bank Restructuring Agency) 30–3
Indomobil 33
Indonesia: assets 32–3; banking reforms 28, 30, 31; compared with Thailand 34; conclusions 40–2; debt restructuring 31–2, 33; decentralisation 30, 34, 35, 37–40; and democracy 4, 33–5, 40, 41; deregulation 25; failure of neo-liberalist reforms 35; foreign aid/loans 27; foreign investors 32, 41; free elections

34; good governance 38; and IBRA 30–3; and Islam 36; judicial corruption 32; and market reform 24, 25, 28; non-performing loans (NPLs) 30; offshore capital 32; oil price collapse 28; overseas investments 31; overview 24–7; political violence 36, 38–9; and poverty 12; power and social conflict 26–7, 36–7, 40; role of the military 38; state/business oligarchies 25, 28, 30, 32, 33, 35, 37, 41; and the territorial command structure 38
Indonesian Bank Restructuring Agency (IBRA) 30–3
industries 51, 56–7
inequality: in eastern Europe 9–10; global 9; growth 11; income 145; and poverty 3
inflation 4–5, 6, 10, 11
international aid 17, 69–70, 77, 78, 79, 81, 83
international financial institutions (IFIs): authority 2; and crony capitalism 8; impaired legitimacy 15–16; research departments 15–16; state developmental model 48; and Vietnam 66; view of East Asian crisis 8, *see also* International Monetary Fund; Washington Consensus; World Bank
International Labour Organization (ILO) 12
International Monetary Fund (IMF): criticism 51–2; managerial civil society 67; mishandling of the East Asian crisis 7; role in advancing neo-liberalist ideals 2; undemocratic practices 15; view of Vietnam 66, *see also* international financial institutions; Washington Consensus
Islam 90, 91, 98, 101, 102, 104, 105, 106

Japan: and aid 77; developmental state model 13; leadership role 14; state-led development 17; strategic industrialisation 142
Jesudason, J.V. 93, 97
Jiang Zemin 146, 147

Keynesian policies 4–5
Kia 56
Kim Dae-jung 49, 50
Kim Eun Mi 47, 53
Kim Yong Hwan 48
KKN (korupsi, kolusi dan nepotism) 39
Korea: and the chaebols 49, 51, 52, 53, 54, 57–60; conclusions 60–2; and corporate governance 51; and Daewoo 54–6; and democracy 48; as a developmental state 47, 48, 52, 53, 59; and dispatch centres 50; and foreign investment 61; and industry restructuring 51, 54–7; and international competition 57; as a market economy 52; and non-performing loans 50–1; and overcapacity 56; pre-crisis period 47–9; and reform 47, 49, 50–1, 52, 53; and the role of the state 49, 50, 54, 57, 60; and Samsung 56–7; and state elites 46, 47, 52; strategic industrialisation 142; as a welfare state 47

Krugman, P. 130, 142
Kuala Lumpur Stock Exchange (KLSE) 99–100, 101

Labour Relations Law (Korea, 1997) 50
Latin America 3, 9
Lee Kyu-seong 53, 58
legitimacy 2–3, 49, 69
Letters of Intent (LoI) 8, 29–30, 78, 118, 119
liberal capitalism 4
Lim Kit Siang 107
loans 77, 78
local markets 88, 89, 90–3, 103–5, 110

macroeconomic conservatism: and patronage 89; and political economy 89; relationship to growth 10; and the Washington Consensus 6, 8
Mahathir Mohammad 14, 92, 95, 96, 99
Malaysia: bailouts 88, 95, 96, 97, 101; budgetary deficits 106–7; business elites 90, 92–8, 100, 108; capital controls 88, 96, 97, 98, 101, 109; conclusions 108–11; corporate sector 94, 96, 100, 104; corruption 94, 99, 104, 105, 106, 108, 110; economy 88, 91–3, 95–7; elections 91, 105–6, 107; equity markets 97; ethnic pride 90, 93; foreign direct investment 90, 91, 92, 93, 98, 101, 102; foreign portfolio investment 97, 98, 101, 102, 107, 108, 110; free trade zones (FTZs) 91, 92; future issues 107; globalised enclaves 88, 89, 90, 102, 104, 110; and Islam 98, 101, 102, 104, 105, 106; local markets 88, 89, 90, 103–5, 110; and Mahathir Mohammad 14, 92, 99; money politics 102, 103, 104; neo-liberal reforms 98–102, 106, 107; non-performing loans 96; open tender bidding 106, 110; overview 88–90; and patronage 89–90, 92, 99, 102–3, 105, 106; political stability 93; and regulation 93–5, 98, 99, 100, 101, 110; revenue collection 107; role of banks 94, 96, 97, 101; and social grievances 105–6; state-owned enterprises 91, 92, 99, 104; statist interventions 89, 109; and the Washington Consensus 101
Malaysia Airlines 100
Malaysian Chinese Association (MCA) 91
Malaysian Code of Corporate Governance 101
market economy 2, 3–4, 136, 140
market reform: in China 136, 137; in Indonesia 25, 26; and privatisation 136; problems 28–9
market socialism 82–3
Master Settlement and Acquisition Agreements (MSAA) 32
Mexico 121
Millennium Development Goals (UNDP) 17
million baht village fund (Thailand) 128
Ministry of Finance and Economy (MOFE, Korea) 48
Ministry of Planning and Industry (MPI, Vietnam) 79
Mirzan Mahathir 95
mixed economy 7, 15, 88, 91–3
money politics 72, 102, 103

Nesadurai, H.E.S. and Higgott, R.A. 116
New Economic Policy (NEP, Malaysia) 91
non-bank financial institutions (NBFIs) 51
non-performing loans (NPLs) 30, 50–1, 96

oil prices 4
open tender bidding 106

Parti Islam se-Malaysia see PAS
PAS (*Parti Islam se-Malaysia*): elections 91, 98; and Islam 105, 106; origins 90
patronage: in Malaysia 89–90, 92, 97, 99, 102–3; and Thailand 115
Pei, M. 151–2
Petronas 96, 104
Philippines 40
policy reform 1–2, 7, 11–12, 40–2
Portes, A. 121
poverty: and aid 17; in China 135; and fiscal deficits 11; and inequality 3; Latin America 9; and the mixed economy model 15; national development strategies 12; reduction 6–7, 8, 9, 10, 11, 67, 80–1; rising 9; in Thailand 121, 123–4; trade volumes/growth 10, 11; in Vietnam 80–1
Poverty Reduction Growth Facility (PRGF) 78, 79
Poverty Reduction and Growth Strategy (PRGS) 67
Poverty Reduction Strategy Papers (PRSPs) 12
Poverty Task Force (Vietnam, 1999) 80–1
privatisation 125, 130, 136
Public Administration Reform programme (PAR, Vietnam) 66, 79–80

recapitalisation 30–3
reform *see* economic reform
regional markets 17, 103
regulated capitalism 2
Renong 97
renovation *see* economic reform
rent-seeking 3–4, 103
Rodrik, D. 11
Rubin, R. 115

Sachs, J. 130
Samsung 56–7
Securities Commission (Malaysia) 100
shadow economy (Vietnam) 72
Sino-Thai banking capitalists 119–20
Social Contract (Thailand) 127–30
Soeharto dictatorship 26, 27, 29, 36
state legitimacy 49, 69
state-owned enterprises (SOE) 74–6, 79, 83, 91, 92, 99, 104
strategic industrialisation 142, 144
Suharto dictatorship 26, 27, 29, 36
Syariah principles 101
Syed Mokhtar Al-Bukhary 104–5

Taiwan 142
technocrats 5–6, 24, 25
Ten Year Plan (Vietnam, 2001) 68, 80
Tenaga 104
territorial command structure 38
terrorism 105
Texmaco 32
Thai love Thai Party *see* Thai Rak Thai Party

Thai Rak Thai Party (TRT) 122, 123, 124, 125, 126, 127–30
Thailand: banking sector 118–19, 120, 126; and capitalism 115, 121; conclusions 130–1; decentralisation 126; domestic capital 122, 124, 126, 130; domestic economy 115–16, 118, 119, 121; foreign investment 120–1, 125–6, 127; local businesses 120, 121, 125, 128; and the media 124, 126; military role 125, 128; neo-liberal reforms 116–22, 123, 130; overview 115–16; political change 34; and privatisation 117, 125, 130; property rights 128; real estate 121; Social Contract 127–30; social issues 119, 121, 123–4, 127–30; and Thaskin Shinawatra 122, 123, 124, 125, 126, 127–30
Thaksin Shinawatra 122, 123, 124, 125, 126, 127–30
baht health scheme (Thailand) 128, 129
trade 10, 17
transition recessions 9
The Tripartite Commission on Industrial Relations (Korea, 1998) 50

UNDP (United Nations Development Programme) 17
unemployment 4–5, 11
United Kingdom (UK) 2
United Malays National Organisation (UMNO): and business elites 90, 92–8, 100, 108; elections 91, 98, 107; and ethnic pride 90, 93; future issues 107; and patronage 89–90, 92, 97, 99, 102–3, *see also* Malaysia
United Nations Development Programme (UNDP) 17
United Nations summit (UN, 2000) 12
United States of America (USA): and capitalism 3; corporate scandals 3; economic power 16; import restrictions 142; and Indonesia 25–6; rise of neo-liberalism 2; and Vietnam 66; view of the East Asian crisis 8

Vietnam: anti-poverty programmes 80–1; conclusions 82–3; developmental strategies 66, 67–8; and *doi moi* (economic reform) 65–7, 70, 72–3; and equitisations 75, 76, 79, 83; integration/autonomy 69–70, 71, 80; and international aid 69–70, 77, 78, 79, 81, 83; and legal reform 68, 78; loan programme 77–8; market socialism 82–3; overview 65–7; and private enterprise 68; and role of the state 69, 71, 73, 74, 81, 82, 83; shadow economy 72; state/private power 70, 72, 75, 76; Ten Year Plan (2001) 68; trade agreement with USA 66

Wade, R. 47–8
Washington Consensus: and best economic practice 9; criticism 10–12, 15; and good governance 7; legitimacy 2–3; and Malaysia 101; overview 5–7; voting formula 15, *see also* augmented-Washington Consensus

Williamson, J. 2, 5
Woodside, A. 68
World Bank: and China 138; managerial civil society 67; role in advancing neo-liberalist ideas 2; undemocratic practices 15–16, *see also* international financial institutions; Washington Consensus
World War II 4

Murdoch

UNIVERSITY

ISBN 978-0-415-56842-5
90000
9 780415 568425
Routledge
Taylor & Francis Group
www.routledge.com